

HONG KONG'S TRADE PROMOTION POLICY AND  
THE IMPACT OF TRADE BARRIERS  
ON HER EXPORTS

by

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## Chapter 1 INTRODUCTION

### 1.1 TRADE AND ECONOMIC DEVELOPMENT

When the developing countries carry out their development programmes, they are bound to come across a series of problems such as the choice between import-substitution and export-orientation, the production of primary goods and manufactures, diversification and specialization etc. But from the very beginning, they have to decide whether an inward-looking policy stressing on import-substitution is preferable to an outward-looking policy with emphasis on export expansion, or vice versa.

H. Myint had taken the concrete example of the postwar economic development of Thailand, the Philippines, Malaysia, Indonesia and Burma. He showed that Thailand, the Philippines and Malaysia experienced a rapid postwar development (both Thailand and the Philippines doubled their pre-war real gross national product) while the gross national product of Burma and Indonesia rose by a bare 11%.<sup>1</sup> While the former three had bent on an outward-looking attitude towards foreign trade and with a greater reliance on market forces, the latter two leaned on an inward-looking and even hostile attitude towards foreign trade and investment along with large-scale state intervention in economic life.<sup>2</sup>

Many of the developing countries adopt an inward-looking strategy on the inception of their development by building up labour-intensive

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<sup>1</sup> H. Myint, "Economic Theory and Development Policy", Economica, Vol. 34 (May 1967), pp. 117-131.

<sup>2</sup> Although it might be the market mechanism that gave rise to the difference in economic achievement of these countries, the impact of inward and outward looking policies on the development of the respective countries should be no means be overlooked.



industries such as textiles, garment and footwear etc. through protection in order to meet their domestic demand.<sup>3</sup> When the domestic market is saturated they have to seek other outlets for their industrial products. Hence, some move into new and more advanced industries while others seek outlets abroad. A number of them chose the latter alternative and witnessed remarkable success, notably Taiwan and South Korea.

However, it is not the purpose of this study to expound whether import-substitution is preferable to export-orientation, or vice versa. But based on the success experienced by the above-mentioned countries, it does provide some traceable hints. The simple fact is, if international trade could make a tremendous contribution to them, the same could be true for the new comers. Furthermore, the contribution of international trade to economic development can be greater than what it appears to be if the "dynamic benefits" that it bestows are not underrated.<sup>4</sup>

In fact, witnessed by the past experience of most developed countries which had undergone rapid income growth parallel with rapid trade growth, the relationship between economic development and international trade becomes an important issue to many theoreticians and policy-makers. Yet

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<sup>3</sup> There is a necessary time interval between the point at which decision is made to set up the infant industry and the point at which the industry is strong enough to stand against well-established outside competition. However, if the industry is soundly based, the need for protection will decline as the "learning process" is completed and the needed services are supplied. In the case of those LDCs which are fortunate enough to have been endowed with specific resources, protection may not be necessary.

<sup>4</sup> According to G. Harberler, the dynamic benefits of trade include the provision of material means indispensable for economic development, transmission of technical and managerial know-how and entrepreneurship, transfer of capital especially from the developed to less developed countries, and guarantee for the maintenance of free competition. See Gerald M. Meier, Leading Issues in Economic Development Studies in International Poverty (Oxford University Press, 1970), pp. 494-495.



the concomitant achievements in income and trade growth attained by the developed countries during their early stages of development might be caused by other factors and there is not necessarily a unique relation between export and income growth.<sup>5</sup> But the belief that trade is a necessary catalyst of development has been increasingly accepted by the policy-makers of the developing countries.<sup>6</sup>

## 1.2 WORLD TRADE AND THE DEVELOPING COUNTRIES SINCE WORLD WAR II

The period since World War II witnessed the fastest sustained growth in world exports especially of manufactures over the last hundred years. It was due mainly to the liberalization of trade in manufactures from severe restrictions during the 1930s and the war, and the rapid economic expansion of the developed countries during the postwar period. The trend towards trade liberalization and the integration of western economies during the postwar era also exhilarate exports of the developing countries considering their low base in terms of value to start with.

Actually we do not know exactly whether the appearance of customs unions since the war contributes to trade-diversion or trade-creation.

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<sup>5</sup> During the period of mid-1950 to mid-60 the percentage growth of Atlantic Community exports was nearly twice as great as its income growth; under-developed countries' exports rose a little slower than income. Yet income in the two areas grew at nearly the same rate. John Pincus, Trade, Aid and Development: The Rich and Poor Nations (New York, 1967), pp. 58-69.

<sup>6</sup> Development need not depend so much on expansion of exports if a country has a sufficiently large domestic market. But it is generally agreed that the smaller the national population (hence the smaller the domestic market) the greater must be its dependence on trade. Thus it is conceived that the developing world with a preponderance of small countries should place greater emphasis on the expansion of export trade. Ibid., pp. 68-71.



Nor can we determine precisely how trade-diversion and trade-creation have affected the world as a whole. However, the existence of trade integration, in many cases, can more or less provide impetus to the economic growth of participating countries (at least the EEC) and create demand for imports which, in turn, may provide export opportunities for the developing countries.<sup>7</sup>

As the rapid growth of world trade is largely accounted for by the expansion of trade in manufactures among the developed countries, the developing countries, being circumscribed by the nature of their economies, have limited participation in total world trade. In the mid-1960s, total export of the developing countries accounted for 20% of the world trade with more than two third of which going to the non-communist developed countries. Over half of the world's export was in manufactures and the respective percentage for the developing countries was only 16%. Hence the developing countries' share in world export of manufactures was at the proximity of 5%.<sup>8</sup> Even this small portion of export in manufactures was unevenly distributed owing to the disparity in their levels of economic development. Rahman showed that in 1968 about 78% of the developing countries' total export of manufactures came from six countries, viz., Hong Kong, India, Taiwan, South Korea, Mexico and Pakistan (with Hong Kong alone

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<sup>7</sup> J. Williams and A. Bottrill showed that intra-EEC trade in 1969 was about 50% greater than it would have been if the EEC had not been created. Most of this rise appears to be attributable to trade-creation while the harm done to other countries' exports by diversion was more than offset by positive external trade-creation. The corresponding figure for the EFTA was 25% in 1965. John Williams and Anthony Bottrill, "The Impact of Customs Unions on Trade in Manufactures" in The Economics of Integration, M. B. Krauss ed. (Oxford, 1973), pp. 118-151.

<sup>8</sup> All percentages are calculated from data given in M. Z. Cutajar and A. Franks, The Less Developed Countries in World Trade (London, 1967), Table 3, p. 24.



accounting for 33%). The aggregate share of the Philippines, Iran, Israel, Argentina and Brazil amounted to 12% of the total export, and the other 26 countries accounted for the rest 8%.<sup>9</sup>

Notwithstanding the fact that protectionism, which reached its peak during the Depression, was replaced by a trend toward liberalization by reciprocal tariff cutting extending from 1934 to 1972, the developing countries still attribute their laggard growth of export trade to protective measures instituted by the developed countries. In most cases, tariffs have been persistently biased against their exports particularly in items of interest to them. The developing countries claim that if it is the intention of the industrial countries to give substance to the slogan "Trade, not aid", the latter should eliminate or, at least, reduce the restrictions imposed on their exports.<sup>10</sup>

### 1.3 TRADE LIBERALIZATION SINCE WORLD WAR II

#### 1.3.1 The GATT and the Developing Countries

In response to the growing and changing needs for trade, the General Agreement on Tariffs and Trade (GATT), which began to operate since January 1948, was the first to attack the barriers to trade on a general

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<sup>9</sup> Although the developing countries chosen by Rahman for his study only accounted for 88% of export of manufactures from all developing countries they still could serve as a good approximation for all. A.H.M. Mahfuzur Rahman, Exports of Manufactures (Netherland, 1973), p. 83.

<sup>10</sup> From the economic point of view, aid, as a transfer of capital, may or may not be more productive abroad than at home. As a political issue, the LDCs usually consider that aid has strings attached and is very often thought to be aligned with colonial powers. Apart from these, Johnson claimed that the actual value of aid in form of loans is always smaller than its nominal counterpart. Harry G. Johnson, Economic Policies Toward Less Developed Countries (New York, 1967), p. 25.



multilateral basis. From an original membership of 23, the GATT has grown to include in its roster of Contracting Parties a total of 87, of which the world's major trading nations are a minority. It serves as a forum for negotiations on the reduction of tariffs and other trade barriers and provides a set of trade rules governing the conduct of trade policy. According to the provisions of GATT, the signatories should conduct their trade with each other on the basis of most-favoured-nation clause and reciprocity.<sup>11</sup> Under the GATT rules, tariffs are to be used as the principal instrument of protection, and quantitative restrictions and other nontariff barriers to trade are prohibited.

Beginning with the creation of GATT the signatories held a series of negotiations. Among them the Kennedy Round, which started in May 1964 and concluded in June 1967, was regarded by far the most successful tariff negotiating conference ever held.<sup>12</sup> It was the most wide-ranging ever and resulted in a substantial across-the-board tariff reduction on a nondiscriminatory and nonreciprocal (for LDCs) basis.<sup>13</sup> Tariff concessions made

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<sup>11</sup> The most-favoured-nation clause requires that "the party assuming the obligation shall not treat the other party, with respect to the subject matter specified, worse than it treats the third country receiving the most favorable treatment". H.C. Hawkins, Commercial Treaties and Agreements: Principle and Practice (New York, 1951), p. 61. However, the most-favoured-nation principle under GATT allows exceptions for the preference systems within the British Empire and the French Union, and customs unions and free trade areas can be retained under certain conditions. M.Z. Cutajar and A. Franks, op. cit., p. 133.

<sup>12</sup> The other five rounds held under the auspices of GATT prior to the Kennedy Round took place in 1947 (Geneva), 1949 (Annecy), 1951 (Torquay), 1956 (Geneva), 1960/1 (Geneva). On the other hand, the Tokyo Round after the Kennedy Round will be concluded by 1980.

<sup>13</sup> The average tariff cut by the industrial countries has been estimated at 35% of which higher percentage cuts were made for the most part on the lower rates of duty. Cuts were below average in the sectors of tropical products, other agricultural products, iron and steel, and textiles and garment. M.Z. Cutajar and A. Franks, op. cit., pp. 150-151.



by the 38 participating countries (including 12 developing countries) affected about US\$40 billion of goods currently traded. Indeed, there was little concrete action taken to improve export prospects of the developing countries until the realization of the Kennedy Round. More important was that the Kennedy Round established the principle of non-reciprocity for the developing countries proving the developed countries' increasing awareness of the trade needs of their less developed trade partners.

At the 1960-1 Dillon Round (the one before the Kennedy Round), which was negotiated on a bilateral product by product basis, tariff cuts affected 11% of the United States imports of materials from the developed countries but only 2% of materials imported from the developing countries. For manufactures, comparable figures were 28% and 21%.<sup>14</sup> The results of the United States concessions at the Dillon Round showed that these had little effect on the developing countries' "basket of exports". Benefits accrued to them were principally spillover from the tariff concessions bestowed among the developed countries themselves.

However, benefits accrued to the developing world by concessions made in the Kennedy Round were much more direct and beneficial. Developing countries' exports to EEC, the United States and to Japan of both the developed and developing country "baskets" responded significantly and as strongly as developed country exports in those products on which tariffs were reduced.<sup>15</sup>

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<sup>14</sup> J.M. Finger, "GATT Tariff Concessions and the Exports of Developing Countries: United States Concessions at the Dillon Round", Economic Journal, Vol. 84 (September 1974), pp. 566-574.

<sup>15</sup> J.M. Finger, "Effects of the Kennedy Round Tariff Concessions on the Exports of Developing Countries", Economic Journal, Vol. 86 (March 1976), pp. 87-95.



However, the Kennedy Round cuts, like those of previous rounds, seldom touched at raw materials which accounted for more than 80% of the developing countries' exports. In regarding manufactures, concessions made for finished manufactures were larger than those for semi-processed goods.<sup>16</sup>

Bela Balassa had estimated the average rate of tariffs of the developed countries on nonpreferential imports prior to and after the Kennedy Round of tariff negotiations. These estimates are given in Table 1.1 showing that both the average nominal and effective rate of tariffs on imports of manufactures from the developing countries are relatively higher than those from all sources. Thus the main impact of the Kennedy Round is likely to be on trade between the developed countries

Table 1.1

Averages of Nominal and Effective Tariffs on Industrial Countries' Imports of Manufactures Before and After the Kennedy Round

	<u>Nominal</u>		<u>Effective</u>	
	Total imports	Imports from LDCs	Total imports	Imports from LDCs
Pre-Kennedy	10.9	17.1	19.2	33.4
Post-Kennedy	6.5	11.8	11.1	22.6

Source: Bela Balassa, The Structure of Protection in the Industrial Countries and its Effects on the Exports of Processed Goods from Developing Countries, I.B.R.D., Economics Department, Report No. EC-152a, 28 February 1968, mimeo., Table 6.

Quoted from I. Little, T. Scitovsky and M. Scott, Industry and Trade in Some Developing Countries (London, 1970), Table 8.1, p. 273.

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<sup>16</sup> Tariff cuts granted to manufactured goods of interest to the developing countries amounted to about 45% of their initial level while those offered for other manufactured products were only 33%. Ibid.



because of their dominance in the negotiations, and the benefits derived from tariff cuts accruing to the developing countries are comparatively less important.

In addition, the Kennedy Round still leaves unresolved many trade problems of the developing countries. Agricultural products which account for the bulk of the developing countries' exports are generally subject to other forms of protection erected by the developed countries. Little progress was made during the Kennedy Round of negotiations for further access of these products to the markets of the developed countries. Furthermore, at the Kennedy Round, quantitative restrictions contradictory to the principle of GATT were legitimized under the 'escape clause' for reason of "market disruption".<sup>17</sup>

As trade negotiations under GATT are principally through a reciprocal bargaining process, the developing countries have no real bargaining power for the reason that they have practically little to offer simply because their domestic markets are too poor to attract concessions whether by offers or by threats of retaliation. Even they are allowed to bargain on a nonreciprocal basis, their bargaining power does not improve in the real sense as any access they can obtain depends on the willingness of the developed countries to make unreciprocated concessions.

### 1.3.2 United Nations Conference on Trade and Development (UNCTAD)

Owing to the afore-said shortcomings the existing policies and

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<sup>17</sup> In fact, quantitative restrictions on the imports of certain manufactures from developing countries had been widely used by the developed countries since the initiation in 1962 of the Long Term Arrangement on Cotton Textiles, which was intended to take effect for a period of five years but later had been extended repeatedly.



institutional arrangements are subject to severe criticism by the developing countries. In an attempt to draw the awareness of the developed countries to the prevailing trade problems they encountered, the developing countries chose UNCTAD (United Nations Conference on Trade and Development) to serve as the forum to express their ideas and demand.

UNCTAD had its inception in Geneva 1964 bringing together 120 national delegations, carrying the specific objective of promoting the development of developing countries through trade. 'The central purpose of UNCTAD, as defined by the developing countries and articulated by its Secretary General, Raúl Prebisch, was to consider ways of bridging the gap between what the developing countries will need in foreign exchange to finance their import requirements for developing and what they are likely to earn in foreign exchange from exports of goods and services'.<sup>18</sup>

The 77 developing countries which constituted the majority of UNCTAD played a central part and formed a voting bloc in its deliberation. They asked for the elimination of all forms of protection imposed by the developed countries on farm products and raw materials, and the granting of tariff preference for their exports of manufactures and semi-manufactures.

In his report, entitled 'Towards a New Trade Policy for Development', Raúl Prebisch had estimated that by 1970, in addition to those met by their export earnings, the developing countries needed US\$20 billion more in order to assure imports sufficient to support the 5% average annual income growth target laid down by the United Nations for the Decade of Development.<sup>19</sup>

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<sup>18</sup> R.N. Gardner, In Pursuit of World Order (New York, 1964), p. 161.

<sup>19</sup> However, Balassa reached alternative estimates that the trade gap would be \$9.4 billion in 1970 instead of Prebisch's estimate of \$20 billion, and the corresponding figure for 1975 would be \$11.3 billion. Bela A. Balassa, Trade Prospects for Developing Countries, Richard D. Irwin, Inc., (Yale University, 1964) pp. 104-105.



And he asserted that this \$20 billion gap could be narrowed by the increasing of export flows from the less to more developed countries.

Prebisch stressed that the underlying GATT principle of nondiscrimination and reciprocity towards free trade was not appropriate to the existing trade relations between countries at vastly different levels of economic development. He argued that the system of reciprocal bargaining mainly reduced trade barriers to the exports of interest to the developed countries while most of the developing countries, which tended to run persistently deficits and their products were too fragile to stand against competition, needed a greater protection than the developed countries. Thus the 'Prebisch Report' suggested that as far as manufactures were concerned the industrial countries should grant tariff preferences to their imports of manufactured goods from the developing world.

According to this view, preferences granted by all (or most) developed to less developed countries should cover all of the latter's manufactured products on the basis of duty-free entry. Preferences received by individual industries in each developing countries should last for ten years from the time when the first plant in an industry starts to export. And in order to give greatest benefit to the poorer countries, preferences applied to products in which the developing countries are already competitive should be withheld and granted to the less advanced ones.<sup>20</sup>

To sum up, realizing that the trade policy underlying GATT's principle of nondiscrimination is strictly inappropriate to the economic disparity between the less and more advanced countries, the former want to receive preferential treatment from the latter and oppose reductions in tariffs

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<sup>20</sup> For a brief account of preferences scheme, see M.Z. Cutajar and A. Franks, op. cit., pp. 162-163; for the criticism, see J. Pincus, op. cit., pp. 197-217.



among industrial countries on goods covered by preferential arrangements. In other words, if the demand of developing countries regarding tariff preferences were granted, both developed and developing countries will tend to move towards a two-tier tariff system, one for industrial countries and one for developing countries.

After long-drawn discussions, industrial countries eventually brought into effect their various schemes of Generalized System of Preferences (GSP). Since the early 1970s almost all developed countries have been implementing their various GSP schemes.<sup>21</sup> The American GSP, being the latest among others, took effect in 1976 granting duty-free entry for 2,700 items imported from 137 developing countries including many in Asia. In fact, most of the GSP schemes provide unlimited duty-free (or large tariff cuts) entry for certain agricultural products and most semi-manufactured and manufactured goods from beneficiary countries with exceptions for some 'sensitive items' which, in most cases, include textiles and clothing.

However, the latest statistics give credence to claims that the GSP concessions have not been up to expectation in expanding the developing countries' exports of manufactured goods. The report written for UNCTAD by Robert Baldwin and Tracy Murray in 1976 pointed out that the aggregate annual effect of the GSP in terms of trade expansion is only US\$480 million. The statistics from UNCTAD (see Table 1.2) showed that only US\$3,440 million worth of exports would have benefited from preference in 1973, against a total export of dutiable goods worth US\$21,600 million and a total

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<sup>21</sup> Japan introduced phase one of her GSP scheme for the developing countries on August 1, 1971. Phase two was due to start on April 1, 1972 at which time Hong Kong was included as a beneficiary with the exclusion of 96 items. 1971/72 Annual Report of the Hong Kong Department of Commerce and Industry (Hong Kong, 1972), p. 22.



Table 1.2

Developing Countries' Exports to Industrialized Markets in 1973  
(US\$ million)

	All goods	Dutiable goods	Covered by GSP	As % of dutiable	As % of all goods
US	13,400	9,200	2,200	24	17
EEC	15,900	4,400	570	13	4
Japan	10,300	6,000	360	6	3
Others	4,000	2,000	310	15	8
TOTAL	43,600	21,600	3,440	16	8

N.B. All figures rounded: Japan data for 1972; "others" estimated.  
Source: UNCTAD.

Quoted from the report by Dick Wilson, "Asia: Preferences Prove a Hollow Gesture", Far Eastern Economic Review, (February 6, 1976), Table II, p. 44.

export of all goods worth US\$43,600 million.<sup>22</sup>

Nor did Asian countries (which account for the majority of manufactured exports from the developing world) benefit much from the GSP. A mere 8% of the exports of developing Asian countries to the developed countries' markets are taking advantage of the various GSP schemes offered by the developed countries in recent years.

As a result of pressure from UNCTAD, especially from the 'Group of 77', the GSP schemes have been gradually improving. As in the case of Japan, her scheme which on its inception affected only 3% of imports from the developing world has been improved by about 50% in 1976. On the other

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<sup>22</sup> All these calculations assumed the operation of the American scheme, which in fact did not start until December 1976.



hand, the EEC has also been constantly altering its GSP scheme.<sup>23</sup> Product coverage of agricultural commodities subject to preferential entry under the EEC GSP was extended to some 240 items in 1976.<sup>24</sup> For semi-manufactured and manufactured products within the scheme, quotas and ceilings were increased for about 15% in the same year. But relevant figure for textile quotas was only 5%.<sup>25</sup> And in order to ensure a more balanced distribution of the advantages granted to all beneficiaries, the EEC tends to offer greater benefit to the poorer countries by limiting the share of more competitive developing countries in its GSP imports.<sup>26</sup>

As far as the EEC's GSP is concerned, the improvements made are fairly encouraging especially to the developing Asian countries though it is hoped that the EEC could have done more. Meanwhile, the Japanese scheme of GSP has been altered in favour of the developing world since 1972.

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<sup>23</sup> As Britain became full member of EEC on January 1, 1973 she was required to conform to EEC practice as regards the scheme from January 1, 1974.

<sup>24</sup> Meanwhile, the tariff quota for certain agricultural products such as unmanufactured flue-cured Virginia Tobacco, tinned pineapple has been raised and the tariff itself has been cut.

<sup>25</sup> The EEC GSP scheme maintains a complicated system of quotas, ceilings and butoirs, which represent the maximum amount of any product a country is entitled to for a given quota or ceiling.

<sup>26</sup> EEC intends to classify the beneficiary countries according to their per capita income and their share in the Community's GSP imports. One suggestion is to allocate no more than 10% - 20% of all quotas and ceilings to the more competitive countries and the balance will be appropriated to the other exporting countries possibly without any butoir restrictions. If so, the result will be a sharp drop in Common Market imports under its GSP as about 50% of EEC imports under GSP are supplied by five countries. Report by Malcolm Subhan, "'Fortress Europe' Spurns Asia's Export Pleas", Far Eastern Economic Review, (December 12, 1975), pp. 36-37. This re-classification has become effective in 1977.



Overall, efforts undertaken by the developed countries to improve their trade concessions have doubtlessly enhanced export opportunities of their less developed trade partners. Though improvements have been at a slow start, the low level of imports of the developed countries from the developing world does allow a considerable scope for the latter to expand exports. Thus, the developing countries have shown some success in export expansion in the 1960s. During the period 1962 — 1967 and 1968, the developing countries' exports of manufactures grew at an annual rate of 15% and 18.1%, and in the market of developed countries at 16.4% and 26.1%, while relevant figures for total world export of manufactures were 10.4% and 14.6%. The developing countries' share in total world export of manufactures had increased from 4.3% in 1962 to 5.4% in 1968, and in the market of developed countries from 3.8% to 4.9%.<sup>27</sup>

The export of manufactures from the developing countries, however, were distributed unevenly among them with the top five, viz., Hong Kong, Spain, Yugoslavia, India and Taiwan accounted for about 50% of the total in 1968. Hong Kong, being the leader of the five, occupied 15%. Both Taiwan and South Korea experienced fast growth in exports of manufactures in the 1960s (over 50% annually), while Hong Kong's annual rate of increase amounted to 15% during the same period and her export in 1969 was larger than those of Taiwan and South Korea combined.<sup>28</sup>

Thus, it can be said that the 1960s was a period generally favourable

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<sup>27</sup> These figures are from H.B. Chenery and H. Hughes, "Industrialization and Trade Trends: Some Issues for the 1970s" in Prospects for Partnership: Industrialization and Trade Policies in the 1970s, H. Hughes ed. (Johns Hopkins University Press, 1973), Table 1-4, p. 29.

<sup>28</sup> The percentages are derived from Chenery and Hughes, op. cit., Tables 1-2, pp. 26-27.



to those developing countries which were able to grasp trade opportunities. It is unfortunate that the 1970s was marred by disruptive developments, despite of further trade liberalization.

#### 1.4 HONG KONG AS A CASE STUDY

Needless to say, the export performance of individual developing countries reflected by the skewed distribution of their exports of manufactures may provide some insight to the nature of their economies and their development policies. In this study, we try to trace the underlying factor and strategy that contribute to Hong Kong's development of export trade. The next Chapter attempts to give an overall picture of the nature of Hong Kong's economy and her export performance in manufactures since World War II. Chapter Three & Four deal with the trade barriers in the form of tariffs and quantitative restrictions that Hong Kong has encountered over the years. Based upon analysis of the impact of these barriers on her exports, we can, to a certain extent, envisage the ability of Hong Kong in adjusting herself to the trade barriers she confronts. However, even though Hong Kong performs well in trade despite of barriers and her products can meet market requirements, she must make her products known to overseas buyers if export growth is to be sustained. Chapter Five intends to outline the trade promotion strategy which Hong Kong employs in pushing and publicizing her products. The last Chapter summarizes some of the findings and investigates Hong Kong's trade prospects on the basis of past experience.

For the purpose of this study, 'manufactures' are defined to cover commodity sections SITC 6-8. Section 5 has been excluded due to its insignificance in the Hong Kong export basket. Since the majority of Hong



Kong's exports of manufactures are destined for the developed countries, our study will concentrate on developments in these markets, which include the United States, Canada, the United Kingdom, the Nordic Countries, EEC, Switzerland, Austria, South Africa, Australia, New Zealand and Japan.

The Eastern European countries will be mentioned in passing due to their increasing importance to Hong Kong exports in recent years. The time period under study will start mainly from 1960 because export statistics were not classified separately as re-exports and domestic exports prior to 1959. In certain cases, we have to start with 1964 owing to shortage of trade statistics in 3-digit standard classification.



Chapter 2 TRADE OF HONG KONG

Recognizing the not-too-bright future for trade in primary commodities and the rapid growth of world trade in manufactured goods, it is not difficult to understand the eagerness of developing countries in looking forward to industrialization as the high road to development.<sup>1</sup> Actually, the attempt to increase exports of primary commodities from the developing countries would be frustrated by protective measures of the developed countries; unlike manufactures, little progress has been made towards trade liberalization in these goods since the war. Although exports of manufactures originated in the developing world may also meet with restrictions imposed by advanced countries if they become larger, there is considerable potential for these products to obtain further access to markets of the latter considering their small share in world trade.

Hence deliberate economic policies, which very often involve direct government intervention, have been adopted by the developing countries to encourage industrialization. Policies employed during early stages of development were concentrated on import-substitution by imposing restrictive measures on imports of manufactured goods. Until the end of the 1950s, very little encouragement was provided for exports. Development through export expansion, in most case, came in only at a later stage.

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<sup>1</sup> Prebisch claimed that, as the income elasticity of demand for primary commodities is relatively low, there is not much room for further expansion of these goods. Furthermore, there has been a long-run downward trend of the terms of trade of these commodities since the start of this century, which may be aggravated if efforts are concentrated on technical improvements in primary production without a vigorous development of industries and their technology. Raúl Prebisch, "International Trade and Payments in an Era of Coexistence Commercial Policy in the Underdeveloped Countries", American Economic Review, Papers and Proceedings 1958, Vol. 49 (May 1959), pp. 251-273.



However, this has not been the case for Hong Kong on her path of industrialization as the growth of Hong Kong's industry has taken place strictly within the framework of free enterprise and free trade. In fact, Hong Kong closely resembles the textbook model of nineteenth century laissez faire economy.<sup>2</sup>

Although manufacturing in Hong Kong has a fairly long history, dating back to the turn of the century, it was nothing more than an extension of China's economy. Hong Kong had, for more than a hundred years, derived her living from entrepot trade with China.<sup>3</sup> The structure of the economy during this time was principally commercial. The few manufacturing industries such as rope manufacturing, shipbuilding and ship repairing, food processing and the refining of Chinese tin prior to re-export were ancillary to the entrepot trade.<sup>4</sup> The growth of re-export trade had led to the developments in shipping, banking, insurance and warehouse services. Thus Hong Kong's trade was very much related with China and was closely bound to the events occurred there.<sup>5</sup>

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<sup>2</sup> Hong Kong is a free port except that specialized licences are required for a few imports such as liquor, tobacco, table water, narcotics, explosives and chemicals etc.

<sup>3</sup> During the 1930s less than 10% of Hong Kong's exports were domestically manufactured, and nearly 70% of her trade was Chinese external trade passing through Hong Kong. About one third of Hong Kong's retained imports came from China. See G.B. Endacott, An Eastern Entrepot, Her Majesty's Stationery Office, (London, 1964), p. 186.

<sup>4</sup> G.C. Allen and Audrey G. Donnithorne, Western Enterprise in Far Eastern Economic Development: China and Japan, George Allen and Unwin Ltd., (London, 1954), pp. 168-169.

<sup>5</sup> During the Japanese occupation of Shanghai in late 1937 and 1938, China's imports from Hong Kong had increased from 3 to 45%, while exports to Hong Kong increased from 12 to 41.3%. After the fall of Canton into Japanese hands, trade with China was virtually stopped. G.B. Endacott, op. cit., p. 187.



Besides, during that period the Hong Kong population was highly mobile. Annual population movements in the 1930s fluctuated between 25% and 56% of Hong Kong's total population. People moved between Hong Kong and the Mainland to seek employment opportunities. Hence it was quite difficult to distinguish Hong Kong's economy from China's.

During the early postwar period Hong Kong had experienced two external events which altered her economic course. The first was the Chinese Civil War in 1946-1949 which resulted in large influx of refugees mainly from the adjacent province of Kwangtung and from Shanghai causing rapid growth of the population on the barren island.<sup>6</sup> The other was the Korean War which gave rise to an embargo imposed by the United Nations on shipments of strategic commodities to Mainland China.<sup>7</sup> This resulted in a drastic fall in Hong Kong's total exports of nearly 50% during the period 1951-1954 chiefly accounted for by the loss of the Chinese market from which Hong Kong had derived her living for decades.<sup>8</sup>

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<sup>6</sup> Since the end of the war, owing to the returning of former residents and inpouring of newcomers, the population had grown rapidly from about 600,000 in August 1945 to the region of 1.8 million by the end of 1947. In addition, subsequent waves of immigration occurred in 1951-2, 1957-8 and 1962 caused the population to arrive at 3.7 million by 1966. See "The Hong Kong Economy: Achievements and Prospects" by E.H. Phelps Brown in Hong Kong: The Industrial Colony, edited by Keith Hopkins, (Oxford University Press, 1971), pp. 1-20.

<sup>7</sup> About 400 items were included in the embargo list. The value of these commodities going to Mainland China declined from HK\$676 million in the first half of 1951 to HK\$3.7 million in 1955. Edward Szczepanik, The Economic Growth of Hong Kong, (Oxford University Press, 1958), p. 50. However the United Nations embargo was only the last of a series of trade restriction for the United States had already embargoed all her trade with Mainland China in June 1950 and at first included Hong Kong in the ban. Gene Gleason, Hong Kong, (London, 1964), p. 89.

<sup>8</sup> Hong Kong's exports to Mainland China fell from HK\$1.6 billion in 1951 to HK\$520 million in 1952. Theodore Geiger and Frances M. Geiger, Tales of Two City-States: The Development Progress of Hong Kong and Singapore, (National Planning Association, 1973), p. 68.



The embargo undertaken by the Western countries had pushed Hong Kong to the edge of economic disaster. Shipping, finance, insurance as well as other ancillary services went down with trade. With the loss of China trade, Hong Kong lost half of her export market and one quarter of imports. This was the trade which had been the main source of Hong Kong's income. The adverse situation was aggravated by the population pressure. At that time, it looked as if Hong Kong was finished as a world trade centre.

However, Hong Kong was able to turn the unfavourable situation to her advantage. The decline in entrepot trade forced Hong Kong to look for other means of survival instead of finding subsistence by rendering trading services to other countries.<sup>9</sup> Hong Kong started to place efforts on some manufacturing operations in order to replace the losses in entrepot trade on the one hand and provide jobs for the unemployed on the other. A decade later she had successfully transformed herself from an entrepot to an export-oriented industrial city. At the beginning of the 1960s, locally-produced goods had already occupied more than 70% of the total exports. Industrialization in Hong Kong gathered full momentum during the 1960s. Now Hong Kong has developed into a famous manufacturing centre producing goods chiefly for exports. Products manufactured concentrate on a few items such as clothing, textiles, electronics, plastic manufactures and toys etc.

## 2.1 POSTWAR DEVELOPMENT

Hong Kong's economy was at a standstill when the war ended in 1945.

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<sup>9</sup> Hong Kong's trade with Mainland China never regained its old place after the 1951 debacle for even though the embargo was gradually relaxed, Mainland China had, for both political and economic reasons, diverted her trade from the West toward Soviet Russia and Eastern Europe before the restrictions had come into full effect.



Houses were destroyed or run down, managerial personnel and skilled labour died or scattered, and much worse was the disruption of the framework of external economic relations constituting Hong Kong's entrepot trade. But with the rapid reestablishment of currency and credit and the returning of residents, Hong Kong saw some light of rebuilding her economy. Besides, because of the lost in importance of Shanghai as a manufacturing and trading centre due to the increased military conflict between the Government and the communists in North and Central China, Hong Kong had taken the opportunity of replacing Shanghai to restart trade between China and the rest of the world. Later, as the communist took power in the Mainland, Hong Kong's merchant houses had become the major agents in handling trade between the new regime and the noncommunist world because the communist regime tried to export almost everything it could afford in order to finance imports of machinery and industrial raw materials for economic reconstruction. This added impetus to the restoration of Hong Kong's entrepot trade. The effect culminated in the Korean Boom causing the total exports of Hong Kong to climb up to HK\$4,433 million in 1951 (an increase of more than fivefold compared to HK\$766 million of 1946). But the whole picture changed overnight in the middle of 1951 when most of the trade was choked off by the United Nations embargo, and since then entrepot trade never regained its pre-eminent position in Hong Kong's economy.<sup>10</sup> This marked the end of an era in Hong Kong's development.

On the other hand, the inflow of refugees from the Mainland during and after the Chinese Civil War altered the economic outlook of Hong Kong

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<sup>10</sup> Exports to Mainland China fell from a record of HK\$244 million in the month of March 1951 to a total of HK\$51 million in December of that year. The Hong Kong General Chamber of Commerce, Centenary Year 1961, (Hong Kong, 1961), p. 76.



and laid the cornerstone for a new course of growth. The development of manufactures obtained its first impulse from these immigrants, for they provided local industries with a large reservoir of both skilled and unskilled labour at low wages, and, in many cases, the necessary know-how and capital.

By the end of the war Hong Kong had only a few industries such as shipbuilding and ship repairing, rubber footwear and food processing etc. among which shipbuilding and ship repairing was the most important.<sup>11</sup> The history of industry in Hong Kong started a new era in 1947 when the first textile factory came into existence.<sup>12</sup> However, prior to 1950, it was not of much more than local significance though there was some surplus of cotton yarn for export. The textile industry, including those manufactures of made-up garments witnessed phenomenal growth within a few years and in 1955 it took the top place of manufacturing industry from shipbuilding and ship repairing, occupying 60% of the total value of Hong Kong manufactured goods as well as almost 30% of the labour force in the registered and recorded establishments.<sup>13</sup> Three other important items were footwear, enamelware and electric torches. Industrial output increased at the average of about 30% a year during the period of 1950-1964.<sup>14</sup>

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<sup>11</sup> The shipbuilding and ship repairing industry absorbed about 28% of the labour force in the registered and recorded establishments. Szczepanik, op. cit., p. 61.

<sup>12</sup> Although there had been some weaving and knitting operations long before this time, they were of nothing more than cottage size. Ibid., pp. 106-107.

<sup>13</sup> Ibid., pp. 63 and 106.

<sup>14</sup> D.J. Dwyer and Lai Chuen-Yan, The Small Industrial Unit in Hong Kong: Patterns and Policies, University of Hull Publications, (Hull, 1967), p. 12.



During the immediate postwar years tentative steps were undertaken to seek overseas markets for inexpensive consumer goods. The labour and capital inflow from the Mainland provided foundation for the development of several industries such as rubber footwear, simple metallic and electrical goods, textiles and clothing. Diversification was the main feature of industrial expansion during these years. Followed a brief period of trade stagnation after the Korean Boom, industrialization in Hong Kong continued in rapid pace reaching the climax in 1958-1960 and was marked by the fast growth in clothing and plastic manufactures.<sup>15</sup> On the other hand, the expansion of the textile industry which had been remarkable in the 1950s started to decelerate since the early 1960s owing to the restrictive measures imposed on this trade and increased competition. Therefore throughout the 1960s, except clothing which still remained its relative importance in the manufacturing sector and showed no sign of contraction regardless of the increased import controls exercised by the developed countries, the shares of textiles and footwear in domestic products had undergone a continuous downward trend. Meanwhile, some comparatively new industries such as electronics, toys, watches and clocks etc. began to take position in the manufacturing sector, notably the electrical industry which had replaced textiles as the largest single dollar earner after clothing.

In the past, Hong Kong had relied primarily upon her cost advantage. But due to rising wages, high land costs and increased competition in the recent years this advantage has been gradually lost. Thus Hong Kong has

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<sup>15</sup> Industry in Hong Kong, report prepared by The Economist Intelligence Unit Ltd. for the Federation of Hong Kong Industries, (Hong Kong, 1962), p. 2.



been undergoing a period of transition in driving towards higher productivity and diversifying into more sophisticated and technology-intensive products. Apart from development in manufactures, Hong Kong has also recorded fast growth in services markets, particularly tourism and financial services.

## 2.2 TRADE PATTERN

In the past three decades, Hong Kong's trade pattern had undergone drastic changes due mainly to the external political factors which affected the commercial policies of her major trade partners. The consequence was a substitution of domestic exports for re-exports. Thus, prior to the mid-1950s when entrepot trade was the backbone of the economy, total trade was two to three times that of the total output, but with the increase in exports of locally-produced goods, total trade was about 1.5 times the gross domestic product in 1966.<sup>16</sup>

Nevertheless, the substitution of local products for re-export did not change the export-oriented nature of Hong Kong's economy. The important role that trade played in the economic development of Hong Kong could be well supported by the fact that Hong Kong ranked eighteenth in terms of foreign trade among the non-communist countries in 1972, despite of her minute size.<sup>17</sup>

As shown in Table 2.2, average annual growth rates for total exports and imports, and those for domestic exports and retained imports were well over 10% since the end of the war. As far as long-range growth trend is

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<sup>16</sup> K.R. Chou, The Hong Kong Economy, (Hong Kong, 1966), p. 38.

<sup>17</sup> T. Geiger and F.M. Geiger, op. cit., p. 84.



Table 2.1  
Commodity Trade of Hong Kong, 1950-1975  
(HK\$ million)<sup>a</sup>

Year	Total Exports	Total Imports	Domestic Exports <sup>b</sup>	Re-exports <sup>b</sup>	Retained Imports <sup>c</sup>	Trade Balance
1950	3,716	3,788	420	3,296	492	-72
1951	4,433	4,870	550	3,883	987	-437
1952	2,899	3,779	486	2,413	1,366	-880
1953	2,734	3,873	635	2,099	1,774	-1,139
1954	2,417	3,436	864	1,553	1,882	-1,018
1955	2,534	3,719	1,003	1,531	2,188	-1,185
1956	3,210	4,566	1,115	2,095	2,471	-1,356
1957	3,016	5,149	1,202	1,814	3,335	-2,133
1958	2,989	4,594	1,260	1,729	2,865	-1,605
1959	3,278	4,949	2,282	996	3,953	-1,671
1960	3,938	5,864	2,867	1,071	4,793	-1,926
1961	3,930	5,970	2,929	992	4,978	-2,040
1962	4,387	6,657	3,317	1,070	5,587	-2,270
1963	4,991	7,412	3,831	1,160	6,252	-2,421
1964	5,784	8,551	4,428	1,356	7,195	-2,767
1965	6,530	8,965	5,027	1,503	7,462	-2,435
1966	7,563	10,097	5,730	1,833	8,264	-2,534
1967	8,781	10,449	6,700	2,081	8,386	-1,668
1968	10,570	12,472	8,428	2,142	10,330	-1,092
1969	13,197	14,893	10,518	2,679	12,214	-1,696
1970	15,238	17,607	12,347	2,891	14,716	-2,369
1971	17,164	20,256	13,750	3,414	16,842	-3,092
1972	19,400	21,764	15,245	4,155	17,609	-2,364
1973	25,999	29,005	19,474	6,525	22,480	-3,006
1974	30,036	34,120	22,911	7,125	26,995	-4,084
1975	29,832	33,472	22,859	6,973	26,499	-3,640

a. Throughout this study all dollar values are current unless otherwise stated.

b. Domestic exports and re-exports were not classified separately prior to 1959.

c. Retained imports are derived from subtracting re-exports from total imports.

Sources: Domestic exports of 1950 and 1951 are cited from S.Y. Chung, "The Role of Manufacturing Industry in the Economy of Hong Kong", in The Hong Kong Economic Scene, Ed. by J.W. England, University of Hong Kong, Department of Extra-Mural Studies, Hong Kong, 1959. Domestic exports of 1952-1958 are quoted from K.R. Chou, op. cit., Table 10, p. 40. -- Hong Kong Statistics, 1947-1967, Census and Statistics Department, Hong Kong, 1969 -- Hong Kong Trade Statistics.



Table 2.2  
Commodity Trade of Hong Kong, 1950-1975  
(Growth rates %)

Year	Total Exports	Total Imports	Domestic <sup>a</sup> Exports	Retained Imports	Domestic Exports as % of Total Exports	Trade Balance as % of Total Exports
1950	60	38	40	-33	11	-2
1951	19	29	31	101	12	-10
1952	-35	-22	-12	38	17	-30
1953	-6	3	31	30	23	-42
1954	-12	-11	36	6	36	-42
1955	5	8	16	16	40	-47
1956	27	23	11	13	35	-42
1957	-6	13	8	35	40	-71
1958	-1	-11	5	-14	42	-54
1959	10	8			70	-51
Average 1950-59	6.1	7.8	18.4	21.3		-39.1
1960	20	11	26	21	73	-49
1961	0	2	3	4	75	-52
1962	12	12	13	12	76	-52
1963	14	11	16	12	77	-49
1964	16	15	16	15	77	-48
1965	13	5	14	4	77	-37
1966	16	13	14	11	76	-34
1967	16	3	17	1	76	-19
1968	20	19	26	23	80	-18
1969	25	19	25	18	80	-13
Average 1960-69	16.8	12.1	17.0	12.1		-37.1
1970	15	18	17	20	81	-16
1971	13	15	11	14	80	-18
1972	13	7	11	5	79	-12
1973	34	33	28	28	75	-12
1974	16	18	18	20	76	-14
1975	-1	-2	0	-2	77	-12
Average 1970-75	15.0	14.8	14.2	14.2		-14
Average 1950-75	12.6	11.6	16.5	15.9		-32.5

a. Figures prior to 1959 are not comparable with those of that year and after due to the difference in trade classification.

Source: Calculated from Table 2.1.



concerned, they have been most remarkable.<sup>18</sup> Among them, domestic exports achieved the highest average growth rate during the 1960s amounting to 17% indicating the rapid pace of industrialization.<sup>19</sup> On the other hand, during the 1950s retained imports increased at an average rate of 20% signifying the immediate necessity of Hong Kong to import raw materials and capital goods to support the foundation of her manufacturing industry and meet the demand for foodstuffs and consumer goods resulting from the growth of population.

Exports of Hong Kong almost exclusively consist of manufactures as 95% of the domestic exports are occupied by these products. Yet the composition of these goods is highly concentrated in four commodity categories, namely, clothing, electrical products, textiles and miscellaneous manufactured articles (largely toys and games, jewellery and plastic articles), which together in 1975 accounted for 80% of her total domestic exports. According to the 1973 Census of Industrial Production, these four commodity groups constituted nearly 60% of the 1973 gross manufacturing output.<sup>20</sup> The remaining 40% of the output (or 20% of total domestic exports) were comprised by a vast range of goods but none of them alone bore importance to the manufacturing sector.

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<sup>18</sup> K.R. Chou, op. cit., pp. 38-39.

<sup>19</sup> Although prices began to rise sharply since 1968 causing the growth rates of domestic exports reach unparallel high values of 26%, 25% and 17% in 1968, 1969 and 1970 respectively, real rates of export growth for the corresponding years still arrived at the proximity of 17%, 11% and 5%. Export prices were quite stable prior to 1968, hence growth rates of exports preceding to this year might be quite close to the real rate of growth. James Riedel, The Industrialization of Hong Kong, (Germany, 1974), pp. 8-9.

<sup>20</sup> Gross manufacturing output in 1973 was HK\$31,961 million. 1973 Census of Industrial Production, Department of Commerce and Industry, Hong Kong, Vol. 1, p. 2.



Tables 2.3 and 2.4 show the absolute values and corresponding shares of major items of Hong Kong's domestic exports. Among them, clothing still remained the leading industry dominating over 40% of the 1975 domestic exports. Next were the electrical products constituting 12% of the total in the same year. Textiles had dropped to the third position in terms of export importance occupying 9.8% of the 1975 total. Other large categories included toys and games (7%), watches and clocks (2.8%), manufactures of metals (2.6%), jewellery and gold and silverware (2.2%), machinery other than electrical (2.1%), travel goods (2%) and footwear (1.1%). Hong Kong's reliance on clothing and textiles is abundantly clear for they contribute to more than half of her export earnings. Both industries had been exposed to severe import controls imposed by most of the importing countries and keen world competition. But clothing was able to overcome these difficulties by diversifying into products of higher-priced ranges, thus maintained its leading position in the export basket.

Prior to the end of the 1950s, the electrical industry was confined to the manufacturing of torch batteries and bulbs which together accounted for 2% of the total value of Hong Kong's exports in 1955.<sup>21</sup> The industry started its intensive growth by about the mid-1960s and was given additional impetus when the United States urged Japan to exercise voluntary restraint on her exports of electronic goods to the American market. Meanwhile, the Japanese products were shifting to higher-priced ranges. As a result, Hong Kong was able to develop an electrical industry with a wide scope of products. Now products of this industry, including transistorized radios and other electronic and electrical components and parts, made up the next largest category of domestic exports.

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<sup>21</sup> Szczepanik, op. cit., Table 18, p. 162.



Table 2.3 Major Items of Hong Kong's Domestic Exports  
for Selected Years, 1960-1975 (HK\$ million)

SITC Code	Brief Description	1960	1962	1964	1966	1968	1970	1971	1972	1973	1974	1975
65	Textile yarn, fabrics & made-up articles	554.2	590.3	706.9	921.3	1,035.1	1,276.7	1,397.6	1,551.9	2,352.2	2,737.4	2,145.4
69	Manufactures of metal			145.9	175.7	239.7	344.9	344.8	415.4	520.6	641.1	605.0
71	Machinery, other than Electric	12.2	17.3	24.4	27.0	57.6	93.1	86.0	104.3	214.3	316.6	486.9
72	Electrical machinery, apparatus & appliances	47.3	106.4	186.3	476.1	772.0	1,292.7	1,540.5	1,963.1	2,622.2	3,295.5	2,786.7
831	Travel goods, handbags etc.	20.2	31.5	38.7	56.8	124.8	174.8	227.9	301.7	405.4	437.3	455.4
841	Clothing except fur	1,010.3	1,147.4	1,619.7	2,035.4	3,006.1	4,333.4	5,462.9	6,109.2	7,424.9	8,678.3	10,077.8
851	Footwear	114.5	219.5	174.6	184.2	271.4	302.3	350.8	303.7	266.3	311.2	256.4
864	Watches & clocks	4.1	5.0	3.9	24.7	68.6	135.1	175.1	201.8	293.2	509.8	644.4
893	Articles of plastic materials	14.0	22.8	29.4	31.2	56.2	108.2	134.6	159.2	244.1	290.6	248.3
894	Perambulators, toys & games etc.	116.8	165.5	300.2	466.2	786.8	1,110.9	1,262.4	1,404.5	1,668.9	1,823.2	1,604.6
897	Jewellery			58.3	59.5	108.8	184.2	216.6	262.4	421.8	484.0	504.9
899/pt.	Wigs			8.6	70.4	312.7	828.8	508.4	213.2	99.6	41.2	32.8
812	Sanitary, plumbing, lighting fixtures etc.			94.8	115.6	148.9	175.4	187.4	199.9	257.5	302.1	250.6
861	Scientific instruments and apparatus			12.2	39.8	58.2	70.3	80.6	103.7	141.8	225.4	211.8
	Total domestic exports	2,867	3,317	4,428	5,730	8,428	12,347	13,750	15,245	19,474	22,911	22,859

Source: Hong Kong Trade Statistics



Table 2.4 Major Items of Hong Kong's Domestic Exports for Selected Years, 1960-1975  
(percentage of total domestic exports)

SITC Code	Brief Description	1960	1962	1964	1966	1968	1970	1971	1972	1973	1974	1975
65	Textile yarn fabrics & made-up articles	19.3	17.8	16.0	16.1	12.3	10.3	10.2	10.2	12.1	11.9	9.4
69	Manufactures of metal			3.3	3.1	2.8	2.8	2.5	2.7	2.7	2.8	2.6
71	Machinery, other than electric	0.4	0.5	0.6	0.5	0.7	0.8	0.6	0.7	1.1	1.4	2.1
72	Electrical machinery, apparatus & appliances	1.6	3.2	4.2	8.3	9.2	10.5	11.2	12.9	13.5	14.4	12.2
831	Travel goods, handbags etc.	0.7	0.9	0.9	1.0	1.5	1.4	1.7	2.0	2.1	1.9	2.0
841	Clothing except fur	35.2	34.6	36.6	35.5	35.7	35.1	39.7	40.1	38.1	37.9	44.1
851	Footwear	4.0	3.9	3.9	3.2	3.2	2.4	2.6	2.0	1.4	1.4	1.1
864	Watches & clocks	0.1	0.2	0.1	0.4	0.8	1.1	1.3	1.3	1.5	2.2	2.8
893	Articles of plastic materials	0.5	0.7	0.7	0.5	0.7	0.9	1.0	1.0	1.3	1.3	1.1
894	Perambulators, toys & games etc.	4.1	5.0	6.8	8.1	9.3	9.0	9.2	9.2	8.6	8.0	7.0
897	Jewellery			1.3	1.0	1.3	1.5	1.6	1.7	2.2	2.1	2.2
899/pt.	Wigs			0.2	1.2	3.7	6.7	3.7	1.4	0.5	0.2	0.1
812	Sanitary, plumbing, lighting fixtures etc.			2.1	2.0	1.8	1.4	1.4	1.3	1.3	1.3	1.1
861	Scientific instruments & apparatus			0.3	0.7	0.7	0.6	0.6	0.7	0.7	1.0	0.9
	Total domestic exports (HK\$ million)	2,867	3,317	4,428	5,730	8,428	12,347	13,750	15,345	19,474	22,911	22,859

Source: Calculated from Table 2.3.



Recently-developed industries like toys, watches and clocks, jewellery have witnessed rapid growth since the beginning of the 1970s. Relatively, watches and clocks achieved the most vigorous expansion increasing from a mere export value of HK\$3.9 million in 1964 to HK\$644.4 million in 1975 (as shown in Table 2.3). On the contrary, footwear, which was one of the major source of export earnings during the early postwar era, had lagged far behind accounting for a meagre of 1.2% of the 1975 domestic exports. Throughout the 1960s, plastics maintained a relatively constant share in exports, and had been gradually shifting from the production of simple goods of plastic flowers and foliage to more sophisticated products like toys and dolls.

However, no product like wigs had undergone such great frustration on its path of development. The wigs industry, developing from an export value of HK\$8.6 million in 1964, reaching its climax at HK\$828.8 million in 1970, dropped drastically to HK\$32.8 million in 1975 (a decline of 25 times in five years). The sudden contraction of the wigs industry was due to the sharp decline in demand for human hair wigs (which constituted the majority of the wigs export) and was aggravated by the shortage of suitable synthetic fibre with which to meet the changing demand since 1970.

To sum up, concomitant with the high rate of increase in total trade, growth in exports of manufactures has been concentrated on certain sectors. At present, five industries, viz., clothing, electronics, textiles, toys and games, and watches and clocks dominate the economy of Hong Kong.

Hong Kong's negligible natural resources and industrial structure significantly dictate her local industries to obtain raw materials and intermediate goods almost entirely from foreign sources of supply. Table 2.5 shows the commodity composition of imports retained in Hong Kong.



Table 2.5 Commodity Composition of Retained Imports for Selected Years, 1960-1970  
(percentage of total retained imports)

Commodity	1960	1963	1965	1967	1969	1970	1971	1972	1973	1974	1975
Foodstuffs	25.8	24.6	24.3	26.2	21.1	19.2	19.3	19.3	20.2	21.1	21.4
Raw materials & semi-manufactures	43.0	43.3	41.4	41.6	44.8	44.5	43.9	44.2	45.1	44.3	43.2
Capital goods	7.7	9.0	10.3	9.5	10.6	12.9	13.3	13.8	12.7	12.5	13.5
Consumer goods	19.0	18.9	20.4	18.5	20.2	20.4	20.1	19.4	18.9	14.8	14.5
Fuels	4.4	4.2	3.6	4.2	3.5	3.1	3.4	3.4	3.1	7.3	7.5
Total retained imports (HK\$ million)	4,794	6,252	7,462	8,368	12,214	14,715	16,842	17,610	22,480	26,996	26,499
Total imports (HK\$ million)	5,864	7,412	8,965	10,449	14,893	17,607	20,256	21,764	29,005	24,120	33,472

Sources: J. Riedel, op. cit., Table 9, p. 37.

H.K. Review of Overseas Trade, annual issues 1972-75.



As of 1975, approximately 80% of the total imports were retained for local usage, the rest being re-exported.<sup>22</sup>

Followed by foodstuffs which accounted for 21.4% of the total retained imports, raw materials and semi-manufactures amounted to 43.2% in 1975 (as shown in Table 2.5). Corresponding shares for consumer goods and capital goods during the same year were 14.5 and 13.5%. Fuels occupied the least portion of 7.5%. While there had been a downward movement in the share of foodstuffs in total retained imports, those of raw materials and semi-manufactures and capital goods showed an upward shift. This changing percentage away from foods and favouring raw materials and semi-manufactures and capital goods is a reflection of the export boom of recent years.

### 2.3 DIRECTION OF TRADE

In developing export markets of Hong Kong's manufactures, initiative was taken by the British and Chinese merchant houses in the early 1950s which had previously been tied up with manufacturing firms in China through the handling of their products to East and Southeast Asia. After the change of regime in the Mainland, many of these manufacturing firms moved from Shanghai to Hong Kong and they found no difficulty in continuing the supply through the merchant houses to their former clients as these firms were known to them.

In spite of the rapid substitution of Hong Kong-made products for those previously supplied from China, Asia declined as Hong Kong's export

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<sup>22</sup> In fact, the share of retained imports in the total imports should be less as a substantial portion of it was re-exported through the hands of tourists and by bunker services which was not recorded in official trade statistics. K.R. Chou, op. cit., p. 52.



market since the mid-1950s due to a number of reasons. First, owing to the balance of payments problems and, upon their independence, many of the Asian countries began to build up their own infant industries through protection. For instance, although Malaysia and Singapore combined had once in the early 1960s ranked as Hong Kong's third largest market, their shares decreased substantially over the years. Only Taiwan, which has made some efforts toward trade liberalization and has shifted from an import-substitution policy to a relatively more export-orientation one since the 1960s, has increased her imports of Hong Kong exports. Second, well-founded Japanese industries revived rapidly after the war and their products strongly competed with those of other countries in the Asian markets. Third, the high-income Western countries opened potential markets for exploration. Besides, the Korean War embargo and the Communist Chinese Government's trade policy of confining exports and imports to essential commodities gave rise to the elimination of Mainland China as a market for the entrepot of Hong Kong.<sup>23</sup> In addition, the application of the production origin restrictions in 1957 and 1958 also resulted in a sharp decline of Hong Kong exports to Japan, South Korea and the Philippines during the years. Thus the consequence was a decline in total exports to Asia.

Table 2.6 shows the regional distribution of Hong Kong's domestic exports. In 1975, Asia took 11.6%, HK\$2,645 million, of Hong Kong-made goods with one third of which destined to Japan. At present, Japan,

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<sup>23</sup> The total exports of Hong Kong to Mainland China dived from a share of 33.9% in 1950 to 3.5% in 1959 and to less than 1% in 1975 of which four-fifth were re-exports. Corresponding figures for those oriented to Asia were 77.9%, 42.5% and 24.2%. Calculated from data given in Hong Kong Statistics, 1947-1967 and Hong Kong Review of Overseas Trade 1975.



Table 2.6 Direction of Hong Kong's Domestic Exports for Selected Years, 1955-1975  
(percentage of total domestic exports)

Market	1955 <sup>a</sup>	1957 <sup>a</sup>	1960	1963	1965	1967	1969	1970	1971	1972	1973	1974	1975
North America	4.6	7.9	28.7	27.6	36.9	40.7	45.5	45.2	45.0	43.5	37.7	35.1	35.5
United States	3.5	6.6	26.0	25.4	34.2	37.4	42.1	42.0	41.5	40.2	35.0	32.4	32.1
Canada	1.1	1.3	2.7	2.2	2.7	3.3	3.4	3.2	3.5	3.3	2.7	2.7	3.4
Western Europe	14.3	15.7	28.4	35.0	32.5	30.1	29.6	29.0	30.7	33.4	34.6	33.9	36.4
United Kingdom	9.9	11.2	20.4	22.5	17.1	17.1	13.9	12.0	14.2	14.4	14.5	12.1	12.2
Fed. Rep. Germany	1.3	1.4	3.7	5.7	7.4	5.5	7.3	8.0	8.2	10.0	9.8	10.7	12.5
Asia	64.6	59.7	23.8	19.2	14.4	14.1	12.1	12.4	11.4	10.6	14.4	13.8	11.6
Japan	5.8	7.6	3.5	3.1	2.6	2.8	3.4	4.0	3.5	3.1	5.5	4.6	4.2
Singapore <sup>b</sup>	14.8	12.4	8.5	7.0	2.8	2.5	2.2	2.3	2.4	2.3	2.8	2.7	2.7
Others	16.5	16.7	19.1	18.2	16.2	15.1	12.8	13.4	12.9	12.5	13.3	17.2	16.5
Australia	2.1	2.2	3.0	2.2	2.7	3.0	2.7	2.9	2.9	2.9	4.0	5.7	4.5
Africa	7.5	7.9	7.5	7.3	5.7	4.1	3.9	4.4	4.1	3.9	3.5	4.6	5.2
Total domestic exports (HK\$ million)	2,534	3,016	2,867	3,831	5,027	6,700	10,518	12,347	13,750	15,245	19,474	22,911	22,859

a. Total exports

b. Exports destined to Singapore before 1964 included those departed for Malaya.

Sources: Calculated from data given in Hong Kong Statistics, 1947-1967 and Hong Kong Review of Overseas Trade.



Singapore, Taiwan and Malaysia account for more than 70% of the products of Hong Kong origin going to Asia. Meanwhile, Asia still remained Hong Kong's largest entrepot trade partner taking about two third of the 1975 total.

The textile industry was the first modern manufacturing industry in Hong Kong. A large part of textile products found markets in Asia in the beginning. After a few small shipments of trial nature had been made to Britain, which turned out to have great competitiveness with respect to prices, quality and delivery dates, in addition to the advantage derived from the Commonwealth Preference, the United Kingdom developed rapidly to become the major market of Hong Kong textile products. The British market continued to expand without major setback until 1955 when pressures mounted to limit the growth of textile imports from Hong Kong. This called for the need of other outlets. And North America was the next target.

Although Hong Kong found the first extra-regional market for her goods in Britain, large inroad in the American market was later made during the late 1950s and soon the United States surpassed Britain as the largest buyer of Hong Kong products. The highly competitive, fashion conscious and volatile nature of the American market required Hong Kong manufacturers to be more alert of its ever-changing conditions. Clothing, a relatively more sophisticated and diversifiable product among the textile goods, was able to become highly adaptable to this market. This was quite contrary to those relatively more standard-type products such as fabrics, piecegoods and related articles which found their major customers in Britain and could be sold either from inventory or to order. Besides, the more highly competitive nature of the American market experienced by Hong Kong's manufacturers had another "spillover" of enhancing



their ability and eagerness to develop other markets for their products in Continental Western Europe, especially in the Federal Republic of Germany. Later, the Netherlands, the Scandinavian countries, Switzerland, Italy, Canada and Australia also opened up for considerable shares of Hong Kong exports.

In 1955, North America and Western Europe together absorbed less than one fifth, HK\$479.6 million, of Hong Kong's total exports (as shown in Table 2.6). But since then there had been a continuous tendency of changing in market shares away from Asia and favouring North America and Western Europe, particularly during the 1960s. As illustrated by Table 2.6, while Asia's intake of Hong Kong-produced goods dropped from 24% to 12% between 1960 and 1970 the United States greatly improved her share from 26% to 42% over the same period.<sup>24</sup> Although Western Europe's share had been doubled between 1955 and the beginning of the 1960s, it deteriorated between 1963 and 1970 due mainly to the diminution in Britain's absorption which had declined from 23% to 12%. But from 1971 onwards, the Western European market started to expand again because of the growth in the EEC market, notably the Federal Republic of Germany which took 70% of the EEC purchase of Hong Kong products in 1975, and had replaced Britain as Hong Kong's second largest client by that year.

In Asia, Japan had surpassed Singapore as the largest outlet of Hong Kong exports. But the Japanese market improved not much over the past

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<sup>24</sup> In 1950, the United States took 8.3% of Hong Kong's total exports. But due to the Korean War embargo the share declined to 2.3% in 1953. From that year onwards, the United States intake grew continually until the beginning of the 1970s. C. Van Eaton, Adaptation of a Land-Scarce Economy: The Economic Growth and Trade of Hong Kong, 1950-1966, microfilm-xerography produced by Xerox University Microfilms, (Michigan, 1976), Appendix Table 6:1, pp. 223-227.



fifteen years due to her trade barriers and informal discrimination against imported manufactures. In the same period, the Australian market had been enlarged by 50%. Likewise, the Nordic countries (Sweden, Norway, Denmark and Finland) had nearly doubled their intake with Sweden alone accounted for 50%. By the way, though Hong Kong has made some inroads in the Soviet Russia and Eastern European countries which indeed seem quite attractive as a vast market for consumer non-durable goods, it is still too early to draw any conclusion on the extent that this market can be exploited. As shown in Table 2.6, by the year 1975 the top five markets (all economically advanced countries), arranged in order of importance, were the United States (32.1%), the Federal Republic of Germany (12.5%), the United Kingdom (12.2%), Australia (4.5%) and Japan (4.2%), which altogether took two thirds of Hong Kong's domestic exports with the top market, the United States taking eight times more than the fifth place market, Japan.

We may also distinguish Hong Kong's market composition by noting the distribution of domestic exports and re-exports between the developed and less-developed economies from 1960-1975. The importance of developed economies to exports of Hong Kong origin is abundantly clear. As demonstrated by Table 2.7, during the time period under study domestic exports found their major markets among the developed countries while re-exports went principally to the less-developed countries. Furthermore, the majority of the re-exports were destined to Asia.

On the other hand, owing to the lack of natural resources, Hong Kong has to import almost everything. Most of the foodstuffs must be imported as local production is far from sufficient for the mass.<sup>25</sup> Local

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<sup>25</sup> It is estimated that about 80% of the locally-consumed food is imported. The Chinese University of Hong Kong, Economic Research Centre, Long-Term Economic and Agriculture Commodity Projections for Hong Kong, 1970-1975-1980, United States Department of Agriculture, Washington, D.C., 1969.



Table 2.7  
Direction of Hong Kong's Domestic Exports and Re-exports  
Among Developed and Less-Developed Economies  
for Selected Years, 1960-1975  
(in percentages)

	<u>Domestic Exports</u>		<u>Re-exports</u>
	Developed Economies	Less-Developed Economies	Less-Developed Economies
1960	65.8	34.2	74.7
1962	57.9	32.1	70.8
1964	73.9	26.1	68.4
1966	78.2	21.8	67.1
1968	81.4	18.6	64.4
1970	82.0	18	55.3
1971	83.7	16.3	57.6
1972	84.1	15.9	56.1
1973	83.8	16.2	58.8
1974	81.2	18.8	63.0
1975	82.1	17.9	63.3

Source: Calculated from the trade Statistics of Hong Kong.



industrialists find a large part of their needed materials and intermediate goods from foreign sources. Capital goods are almost entirely depended upon foreign supply.<sup>26</sup> Thus given the import content of her exports, it is of Hong Kong's vital necessity to acquire cheap and liable sources of imports so that she can, in turn, sell competitively in world markets.

Table 2.8 shows the regional distribution of Hong Kong's imports. Traditionally, Asia still remained the single most principal regional source reckoning for more than half of the total. However, it does not follow that the less-developed countries (which constitute most of Asia) are the major suppliers. Asia ranked high simply because Japan recorded high in suppling goods to Hong Kong. In fact, the developed world, on the whole, provided more than half of the goods imported into Hong Kong.

Prior to the end of the 1960s, Mainland China was the single most important source of goods chiefly because of her dominance in Hong Kong's foodstuffs imports.<sup>27</sup> But she was overtaken by Japan in 1969 as the largest supplier of Hong Kong imports owing to the latter's pre-eminent position in providing local industries with the necessary raw materials and semi-manufactures. Imports from Japan started its intensive growth since the late 1950s when demand for fabrics created by Hong Kong's rapid expanding and diversifying clothing industry exceeded the volume and variety that could be provided by local textile factories. As a result, local manufacturers turned to Japan's large and more diversified textile industry

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<sup>26</sup> Domestic production of capital goods is estimated to account for less than 10% of the total annual capital formation. Nicholas C. Owen, "Economic Policy in Hong Kong", in Keith Hopkins ed., op. cit., p. 205.

<sup>27</sup> Mainland China supplies about half of the foodstuffs consumed in Hong Kong.



Table 2.8 Major Sources of Hong Kong's Imports for Selected Years, 1955-1975  
(percentage of total imports)

Region	1955	1957	1960	1963	1965	1967	1969	1970	1971	1972	1973	1974	1975
Asia	57.8	54.4	54.0	54.0	56.4	55.4	55.2	54.4	56.8	59.5	58.6	59.3	62.9
Japan	14.1	14.8	16.1	16.7	17.3	19.1	23.4	23.8	24.3	23.2	20.2	20.9	20.9
Mainland China	24.1	22.0	20.2	20.1	25.9	21.8	18.1	16.1	16.4	17.7	19.4	17.6	20.3
Taiwan	1.1	1.4	2.1	2.3	1.7	2.5	3.4	4.7	4.9	6.0	5.8	5.2	5.8
Western Europe	25.7	27.2	23.3	23.8	22.4	20.9	20.8	21.9	20.5	19.2	19.2	18.2	16.7
United Kingdom	11.9	13.0	11.3	11.6	10.7	9.4	8.1	8.6	7.9	6.6	5.9	5.7	5.1
Fed. Rep. of Germany	3.5	3.1	3.1	2.6	3.1	3.0	3.7	3.7	3.6	3.4	3.8	3.5	3.1
Switzerland	2.7	3.7	2.5	2.2	2.1	2.4	2.8	2.9	2.7	2.9	3.1	3.3	2.8
North America	10.0	11.5	14.3	11.9	12.1	14.3	14.1	13.9	13.2	12.5	13.3	14.1	12.5
United States	8.7	10.5	12.3	10.6	11.1	13.5	13.4	13.2	12.5	11.9	12.8	13.5	11.8
Others	6.5	6.9	8.4	10.3	9.1	9.4	9.9	9.8	9.5	8.8	8.9	8.4	7.9
Total imports (HK\$ million)	3,719	5,149	5,864	7,412	8,965	10,449	14,893	17,607	20,256	21,764	29,005	34,120	33,472

Sources: Calculated from data given in Hong Kong Statistics, 1947-1967 and Hong Kong Review of Overseas Trade.



to obtain the additional fabrics of cotton and synthetic fibres. During the 1960s, materials and components for other newly developed industries such as plastics and electronics were also imported from Japan. In addition, due to rising income, Hong Kong has become a fast expanding market for Japanese consumer durable products. Consequently, Japan as a source of imports gained continually in importance over the years except for the last few years.

Mainland China's share in Hong Kong's imports had shrunk due to the diminution in importance of foodstuffs in the total imports. Meanwhile, Taiwan, another important source of imports, had nearly trebled her share in the past fifteen years.

An interesting thing occurred in the relative importance of North America and Western Europe as sources of imports to Hong Kong, which together occupied about one third of Hong Kong's total imports as well as providing most of her needed capital goods. At least over the 1960s, Hong Kong's imports from North America increased when there was a downward shift in the goods of Western Europe origin, and while imports from the latter started to expand again, those from the former dropped.<sup>28</sup> This indicated the flexibility of Hong Kong's industry in adjusting to the changing circumstances by replacing the American goods with the European ones or vice versa.

To sum up, while Japan's and North America's shares in Hong Kong's total imports grew steadily from the mid-1950s through the 1960s, Mainland China's had been undergoing a downward trend during the same period. On

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<sup>28</sup> During the Korean War embargo Hong Kong's imports from North America dropped and her imports from Europe expanded. When trade with the United States recovered trade with Europe started to dwindle. E.V. Eaton, op. cit., p. 213.



the other hand, imports from Western Europe as a percentage of the total had declined gradually over the past two decades due chiefly to the decrease in importance of the United Kingdom as a supplier. Nevertheless, the change in distribution of imports was not so radical as that of exports. Asia maintained its leading position supplying 62.9% of the 1975 total imports, and was followed by Western Europe and North America each accounting for 16.7% and 12.5% respectively (as shown in Table 2.8). As of the same year, major sources of Hong Kong's imports were the following in order of importance: Japan (20.9%), Mainland China (20.3%), the United States (11.8%), Taiwan (5.8%), Singapore (5.7%), the United Kingdom (5.1%), the Federal Republic of Germany (3.1%) and Switzerland (2.8%).

#### 2.4 SUMMARY

The Second World War marked the end of an era during which Hong Kong survived on entrepot trade. However, the downfall in re-exports did not bring Hong Kong's prosperity to an end. On the contrary, Hong Kong continued to prosper by transforming from an entrepot into an industrial city. The transformation proceeded with the very much assistance of Hong Kong's geographical situation and commercial experience accumulated over the years, and, most important, the influx of capital and manpower from Mainland China.

Hong Kong is now famous for being a manufacturing centre in world. Her industry tends to specialize in the manufacturing of a few labour-intensive consumer goods. Nearly 90% of the products are export-oriented with the majority of which destined to a handful of the advanced countries after a period of market reorientation. On the other hand, Hong Kong still depends on Asia as the major source of raw materials and the



West as the principal supplier of capital goods. Mainland China maintains its dominant position in foodstuffs supply to Hong Kong.

Since Hong Kong is highly dependent on export, she is highly vulnerable to fluctuations in the level of world trade. The vulnerability is aggravated by the concentration on a limited range of products and a few markets. It is conceived that such concentration, whether on products or markets, gives rise to instability. The introduction of trade restrictions or the development of competing industries abroad are of great concern to the manufacturing industries in Hong Kong.



### Chapter 3 TRADE BARRIERS — TARIFFS

Trade barriers erected by the developed economies have long been important impediments to the export expansion of the developing world. These barriers take a variety of forms, such as, discriminatory and nondiscriminatory tariffs, excise taxes, subsidies to domestic producers, embargoes, state trading, import licensing and quantitative restrictions. Despite of their variance in complexity and severity, they can be grouped under two broad headings: tariff and nontariff barriers. It is indeed not an easy task to distinguish some of them. In general, tariff barriers are those which involve import duties of all sorts and nontariff barriers the rest.

Among them, tariffs and quota restrictions are of great importance to Hong Kong. Thus, our study to evaluate the impact of trade barriers on Hong Kong's exports will emphasize on these two aspects. Difficulties are usually encountered in estimating the probable impact of these measures on trade flows as it is extremely hard to unravel their effects for the reason that an importing country rarely relies on one type of barriers alone. Recognizing this, in our attempt to assess the effects of the afore-mentioned barriers (tariffs and quota restrictions) on Hong Kong's manufacturing exports, we aim at analyzing their general development through historical perspective instead of trying to provide numerical estimates of their impact.

Barriers may be eliminated or reduced through trade negotiations. The extent to which a country can mitigate the burden of barriers imposed by others on its exports largely depends on its ability to offer concessions or to retaliate. In this respect, Hong Kong is most vulnerable for she



has virtually no bargaining power at all. The smallness of Hong Kong's domestic market and the free trade policy that she attaches to preclude her from making any offer or threat of retaliation in return of others' concessions or unfavourable treatment. In fact, Hong Kong has to accept whatever is offered and the only thing that she can do is to make the best out of it.

### 3.1 THE TARIFF ISSUE

Tariffs, which have been universally employed as means of regulating and controlling international trade before the end of World War II, are still common means of trade control and regulation. The restrictiveness of tariffs on imported goods is effected by raising the import price through the addition of a new cost element, the import duty. There is always a tendency for those extremists of protection who completely ignore the benefit of trade and advocate the limitation of imports of any product to the least possible amount. Thus it is the task of the moderate protectionist to advocate the fixing of a tariff rate at which reasonable access is allowed for foreign products. The rate should be high enough for domestic producers to cover production costs in addition to a profit margin, but should not be too high as to stop import altogether and burden consumers, which would jeopardize foreign producers and cause retaliation.

Tariffs may seriously reduce trade but they seldom stop it entirely. The door is left open for foreign suppliers if they can reduce their costs or improve the quality of their product. On the other hand, if quota restrictions are used, the way can be completely barred so that not even an additional unit of import is permitted. If tariff is used as a measure for import restriction, it is extremely difficult to predict exactly what



effect a given rate of duty will have on the quantity of goods imported. There is a strong tendency for the tariff makers to err on the high side and, as a result, imports may actually be reduced more than what is intended. Thus, it is argued that under certain circumstances a tariff may be more restrictive than a quota. Nevertheless, protectionists will almost consistently preferred quota. For after a certain time period improvements in productive efficiency may offset the tariff effect and allow foreign producers to resume their old place in the market. This is what the protected interests want to prevent, and a quota can serve the purpose effectively. The foreign producer can do very little in confrontation with a quota restriction.

However, a tariff may serve the purpose of a quota as well. It can be progressively increased in parallel with improvements in the efficiency of foreign suppliers, thus remains unimpaired as a protective barrier. On the other hand, a quota may theoretically serve the purpose of a stabilized tariff. The restricted quantity can be relaxed after some time to offer consumers the opportunity of enjoying cheaper or better quality foreign products. In short, the effectiveness of a tariff as a trade barrier will decline as foreign efficiency increases but a quota, once being imposed, can be left alone to impede trade flows without the necessity of making further adjustments. Those who are in favour of increasing imports will have to secure positive government action to increase the quota. Hence in the case of tariff, the advantage lies on the side of those who favour more imports as all they have to do is to retain the status quo. That is the reason why protected interests prefer quota as the last resort to curb imports.

As tariff affects the price differential between local and foreign



products, it directly alters the relative competitive position of domestic producers versus foreign suppliers as a whole, as well as that among the exporting countries themselves. The extent to which an individual foreign producer may be affected depends upon his ability to absorb the effect of the tariff change. He may retain his place in the market and remain unimpaired if he can offset the effect of a tariff increase by reducing his production costs. On the other hand, the foreign supplier may be unable to reap the benefit of a tariff preference if he cannot cope with the market demand and increase supply without entailing greater costs.

A tariff increase reduces the competitive position of the exporting countries. But this adverse effect is not necessarily felt by these countries evenly, depending on their ability to adjust themselves to the changed conditions. Besides, tariff changes may, instead of across-the-board, affect specific imported items only. Thus, the extent to which an individual exporting country will be affected, depends on its export basket. Sometimes tariffs discriminate certain foreign suppliers and favour the others. For instance, in the case of tariff preference, the competitive position of the beneficiaries will be improved vis-a-vis all others.

It has been noted that the graduated tariff structure (on the basis of which tariff rates escalate by stage of production) applied in the industrial countries tends to discriminate against exports of manufactures from the developing economies. It discourages the developing countries to export their commodities in processed form. But the graduation of tariff does not proceed endlessly. For those skill- and technology-intensive products such as electrical machinery and transport equipment which cannot be produced economically in the developing countries due to



the absence of the necessary technological and managerial know-how, duties are relatively low.<sup>1</sup>

Tariffs have declined in importance as obstacles to trade comparing to other measures such as quantitative restrictions, exchange control and state-trading operations since the implementation of tariff reductions under the GATT negotiations. In fact, tariffs are no more considered effective measures to restrict imports since they have to be progressively increased with the improvements in foreign productive efficiency if they are to remain effective. Yet continuous upward adjustment of tariff rates, especially those bound by commercial treaties, may strain foreign-relations and incur retaliation. Besides, in the case where the supply of the imported product is relatively inelastic, duties will fail to protect local producers. Under these circumstances, countries resort to other types of import controls, the most popular being quantitative import restrictions.

### 3.2 EFFECTS OF TARIFF BARRIERS ON HONG KONG'S EXPORTS

Since the majority of Hong Kong's exports are labour-intensive manufactures of which the advanced countries are the main consumers, in our attempt to assess the impact of tariff barriers on her exports, we shall concentrate on these types of manufactures and on markets in the developed countries. Therefore, firstly, we have to study the main trend of tariff changes in these products and markets. And then we shall investigate in what way these changes have affected Hong Kong. In this connection, we must recognize three major developments in international trade which had

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<sup>1</sup> Bela Balassa, "The Impact of the Industrial Countries' Tariff Structure on their Imports of Manufactures from Less-Developed Areas", Economica, Vol. 34 (November 1967), pp. 372-383.



special significance for Hong Kong's exports since the end of the war. The first one is the Commonwealth Preference System which had its origin in the 1930s. Second is the GATT negotiations on tariff reduction. The third one is the GSP schemes granted by the developed countries to exports of manufactures from the developing countries under UNCTAD.

### 3.2.1 Commonwealth Preference

The system of Commonwealth Preference was initiated in 1932 after the Imperial Economic Conference at Ottawa with the purpose of protecting Commonwealth exporters from the trade-restricting effects of protectionist measures introduced by Britain in that year. Actually, even before Ottawa, imports of Britain from the Commonwealth countries were enjoying an average rate of preference of 2-3%.<sup>2</sup> But the system was generalized in 1932 requiring that Britain would keep a two-tier system of tariffs — the CPA (Commonwealth Preference Area) rate for imports from the Commonwealth countries and the Full (or most-favoured-nation) rate for those from other sources.<sup>3</sup>

The average margin of preference on all imports, marked by the absolute difference between the Full and CPA rates, culminated about 1937 amounting to 10-12%. Over 60% of the imports from the Commonwealth countries were accorded preference in the British market (compared with only 7% in 1929) having an average margin of 19-20%, with many individual

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<sup>2</sup> Donald MacDougall and Rosemary Hutt, "Imperial Preference: A Quantitative Analysis", Economic Journal, Vol. 64 (June 1954), pp. 233-257.

<sup>3</sup> Actually, it turns out to be a three-tier system of tariffs if the duty rates for imports from EFTA countries are considered separately. But here we ignore the EFTA rate.



margins much higher.<sup>4</sup> But since then, the preferential margin had been continuously lowered owing to the world-wide trend of tariff reduction achieved by successive rounds of GATT negotiations and other trade agreements after the war, in addition to the large rise in prices which had reduced the ad valorem incidence of specific duties. In 1957, the margin had declined to 5.5% but risen to 7.2% in 1963 due to the increase in the share of manufacturing exports (which had a higher preference) from the Commonwealth countries to the British Market.<sup>5</sup> The margin of preference tends to rise as the capability of the Commonwealth countries to export manufactures increases. Thus, a margin of this order can serve as an incentive to the industrial development of developing Commonwealth countries.<sup>6</sup>

As part of the Commonwealth, Hong Kong is qualified to enjoy preferential treatment from the United Kingdom and a number of Commonwealth countries. In 1962, 61% of Britain's imports from the Preference Area enjoyed preferential tariff treatment. A number of countries including

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<sup>4</sup> MacDougall and Hutt argued that the increase in the average margin of preference in the 1930s was due mainly to the increasing of tariffs on imports from countries other than CPA rather than by reducing tariffs on imports from the Commonwealth countries. MacDougall and Hutt, op. cit.

<sup>5</sup> Maxwell Stamp and Harry Cowie, "Britain and the Free Trade Area Option", in New Trade Strategy for the World Economy, edited by H.G. Johnson, G. Allen and Unwin Ltd., (London, 1969), p. 186.

<sup>6</sup> Green showed that despite the continuous trend of erosion the preference margin was, however, slightly higher in 1964 than in 1962 because the increased proportion of manufactured goods overall in 1964 compared with 1962 and particularly of certain manufactures enjoying higher margins might have outweighed the adverse effect of world-wide tariff concessions on the margin. R.W. Green, "Commonwealth Preference: United Kingdom Customs Duties and Tariff Preferences on Imports from the Preference Area", Board of Trade Journal, 31 December 1965, pp. 1551-1558.



Hong Kong enjoyed preference on 90% or more of their exports. In fact, Hong Kong was among the few of all countries in the Area which enjoyed the highest average margin due to her high proportion of exports in manufactured and semi-manufactured products, many of which were admitted free of duty. As of 1962, the share of Hong Kong exports to the British market enjoying preference was as high as 97%. All but 4% of British imports from Hong Kong were free of duty in that year; the dutiable imports were mainly textile goods and clothing. Margins of imports such as textiles, clothing, footwear and toys etc. ranged up to 25% or more resulting in an average margin on all imports from Hong Kong of nearly 19% in 1962 (compared with that of 17% in 1957).<sup>7</sup>

Since the 1950s, by exploiting the advantage bestowed upon her by the Commonwealth Preference, Hong Kong had successfully built up herself as the major supplier of light manufactures, especially textiles and clothing to the Commonwealth Preference Area among the developing Commonwealth countries. At that time, her superiority in textile export was under no challenge except probably India. And despite of the growing restrictions on textile trade the Commonwealth Area still remains the largest buyer of Hong Kong's textile product. As indicated in Table 3.1, except the United States, the top four importers of Hong Kong's textiles are Commonwealth countries which together have taken 44.5% of the total in 1975. Table 3.2 shows that textiles still occupies large shares in Hong Kong's exports to the Commonwealth countries.

However, starting from the 1960s, Hong Kong has experienced a gradual erosion of the Commonwealth preferential treatment she enjoyed. Apart from the tariff reductions implemented under the GATT negotiations,

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<sup>7</sup> Ibid.



Table 3.1 Leading Importers of Hong Kong Textiles (SITC 65)  
(in percentages)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
United States	15.4	14.5	16.8	17.9	15.7	16.5	23.1	21.0	24.2	23.1	20.2	22.6	23.2	18.7	18.2	17.1
United Kingdom	35.3	29.7	38.2	31.1	28.7	29.4	26.8	27.5	26.4	24.2	20.5	25.9	23.5	16.5	16.2	19.0
Australia	5.1	3.0	5.5	5.3	7.0	7.0	5.8	8.7	8.9	9.0	9.4	9.4	8.9	12.6	13.2	13.7
New Zealand	3.7	3.7	4.8	6.4	6.9	7.3	6.1	6.7	7.0	7.0	6.7	7.6	6.1	6.7	8.6	6.4
Singapore					5.8	4.0	4.1	5.0	6.5	6.3	5.9	5.7	5.7	6.4	5.2	5.4
South Africa	3.7	2.6	3.7	4.3	3.5	3.9	1.9	2.0	2.3	2.2	1.8	1.5	1.2	1.2	2.4	3.3

Source: Calculated from the trade statistics of Hong Kong.



Table 3.2 Share of Textiles in Hong Kong Exports to Selected Markets  
(in percentage)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
United States	11.5	14.3	11.3	11.9	9.0	8.0	10.4	7.9	7.2	5.9	5.0	5.5	5.9	6.4	6.7	5.0
EED - six	8.7	11.6	4.8	8.4	7.3	6.4	5.2	4.3	3.1	2.9	4.0	2.9	3.0	2.4	2.5	2.6
Japan	0.5	0.4	0.7	0.3	0.8	0.5	1.1	0.5	0.8	0.9	6.0	3.1	3.0	14.6	2.5	2.6
United Kingdom	33.4	33.7	31.6	23.3	20.9	28.5	25.0	22.4	20.4	18.6	17.7	18.6	16.6	13.8	16.0	14.7
Australia	32.8	32.8	38.1	40.5	44.2	44.1	41.7	40.9	38.1	35.5	33.4	32.7	31.0	38.5	27.9	28.5
Singapore					26.8	23.4	25.0	28.5	31.3	31.0	26.7	23.9	25.3	28.0	22.9	18.6
South Africa	52.5	54.7	56.8	54.1	43.4	45.6	35.7	28.0	27.3	21.8	16.0	13.9	19.2	16.9	23.9	31.3
New Zealand	64.3	68.9	79.2	75.5	84.2	84.8	86.7	85.1	81.0	84.5	81.0	84.3	78.6	81.6	78.7	76.0

Source: Calculated from the trade statistics of Hong Kong.



especially upon the conclusion of the Kennedy Round (which resulted in the reduction of the average margin of preference given by the United Kingdom for imports from the developing Commonwealth by about 40%),<sup>8</sup> several other developments call for brief description. Since the early 1960s, South Africa had continuously imposed a series of anti-dumping duties against certain imports from Hong Kong. Meanwhile, both Singapore and Malaysia had gradually abandoned their Commonwealth Preference systems since the mid-1960s, and in 1966 the former had removed part of her Commonwealth Preference while the latter increased the preference duties to the full most-favoured-nation rate on a large number of items. All these developments had significant effects on Hong Kong. Consequently, the value of Hong Kong exports enjoying preference destined to the Commonwealth except Britain started to decline from its peak in the mid-1960s and never recovered.

In addition to these major erosions of the margins, the value of Commonwealth Preference to the developing member states was further diluted when in January 1972 the United Kingdom introduced her GSP scheme. For those products which were covered by the scheme, the Commonwealth beneficiaries would have to share their Commonwealth preferences with other beneficiary countries under the scheme. The average margins of preference obtained by Commonwealth and non-Commonwealth GSP beneficiaries were 6.2% and 5.1% respectively.<sup>9</sup> But much more important is that as Britain has

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<sup>8</sup> Harry H. Bell, "Trade Relations with the Third World: Preferential Aspects of Protective Structures", in The United States and International Markets, edited by Robert G. Hawkins and Ingo Walter, (Massachusetts, 1972), pp. 299-334.

<sup>9</sup> Ibid.



been accorded membership by EEC, her Commonwealth Preference will be abandoned by 1977.

The Commonwealth Preference has undergone additional deterioration when Britain increased her CPA rate on cotton woven textiles from nil to 85% of the full rate. As a result, the proportion of Hong Kong's exports to the British market qualified for Commonwealth Preference has begun to contract, amounting to about 50% of the total in 1974/75 (compared to 97% in 1962).<sup>10</sup> As can be seen from Table 3.3, the market shares of Hong Kong's major exports to the United Kingdom have declined in the more recent years, while others like the United States, Taiwan, South Korea and Japan have achieved remarkable access to the market in these items.<sup>11</sup>

### 3.2.2 The General Agreement on Tariffs and Trade (GATT)

Since its establishment, GATT has played active role in leading the world towards a free trade system. It serves as a forum for negotiations among countries in regarding tariff reduction and the removal of other trade barriers. Under its auspices successive rounds of tariff negotiations had been held. Among them, the Kennedy Round achieved the most significant result of having an average tariff out of 35% on broad commodity groups, especially manufactures.

However, GATT has not been confronted with no problem. Many developing countries accused that GATT did not look eager to settle their

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<sup>10</sup> Calculated from data given in 1974/75 Annual Statistical Review, Department of Commerce and Industry, (Hong Kong, 1975), Table 3, p. 3.

<sup>11</sup> Substantial growth in market share has been experienced by Taiwan, South Korea and the United States in textiles and clothing; Japan in electrical machinery and miscellaneous manufactured articles; Italy and South Korea in footwear.



Table 3.3  
Market Shares of Major Items in Hong Kong  
Exports to the United Kingdom  
(in percentages)

	1970	1971	1972	1973	1974	1975
Clothing	38.2	41.8	39.6	37.0	32.6	32.6
Textiles	8.1	8.9	7.5	6.6	6.2	5.9
Miscellaneous manufactured articles	10.1	8.2	6.9	7.6	7.1	5.7
Electrical machinery	1.7	2.3	2.4	2.4	1.8	1.2
Manufactures of metal	4.0	4.4	4.8	4.6	3.2	3.0
Footwear	24.9	22.3	17.6	13.9	9.2	7.7

Source: Hong Kong Review of Overseas Trade, 1974, 1975.



development problems as tariff reductions mainly succeeded in manufactures while agricultural commodities, their main concern, were seldom touched. They claimed that the GATT provisions were inadequate for dealing with agricultural trade and nontariff barriers which remained widespread in this field. Furthermore, contrary to the spirit of GATT, quantitative restrictions were legitimized on the basis of "market disruption" with the purpose of preventing expansion of exports by the less developed countries which existing high tariffs could not restrain.

Unlike many of the developing countries, Hong Kong has hardly been affected by the aforesaid situation except in the case of quantitative restrictions on textiles since Hong Kong's exports are almost exclusively manufactures. Thus, she has been able to reap the benefits of general tariff reductions on manufactured goods. Among these negotiations, only those of the Dillon and Kennedy Round will be of relevance to the time series taken in our study.

The Dillon Round, concluded in 1962, had succeeded in a 20% tariff cut. According to the investigation undertaken by J.M. Finger on United States imports, during 1960-1965 a large part of the increase in manufacturing exports of the developing countries' interest to the American market was attributable to the cost differential between the United States and the developing world. Tariff reductions were virtually unimportant as a stimulus. But he then stated that for those manufactures which were of the developed countries' interest, not only their supply from the developing countries increased significantly but they also responded sensitively to the marginal incentive of the tariff reductions.<sup>12</sup> Thus,

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<sup>12</sup> J.M. Finger, op. cit.



even though the Dillon Round chiefly affected typical exported manufactures of the advanced country basket to the United States, and from which the developing world had benefited little, this conclusion might not necessarily be applicable to Hong Kong considering her outstanding position in the exporting of a-typical developing country exports of manufactures (the developed country basket) among the less developed nations during the mid-1960s. Thus, the effects of the Dillon Round concessions on exports of Hong Kong should not be underrated.

The Kennedy Round was concluded in 1967 with effective in five stages from 1968 to 1972. It is by far the most successful round of tariff negotiations resulting in an average tariff cut of 35%. Its effects were more distinguishable. By comparing the "big reduction" (tariff reduction) and "small reduction" groups of manufactured exports from the developing countries to the United States, EEC and Japan, Finger found that tariff cuts did have stimulating effect on the developing countries' exports and the product supply of these countries showed alertness to the marginal incentive of tariff reductions.

During these time, Hong Kong's exports of manufactures had undergone rapid growth part of which could be attributed to the tariff concessions accorded by the industrial countries. With a few exceptions like the United Kingdom which had a relatively tardy economic growth, and South Africa, New Zealand and the Irish Republic, which still largely leaned on nontariff measures, fast inroads had been made to a number of countries. Remarkable success had been won in the American market which expanded from a share of 26% of the total manufactured exports of Hong Kong in 1960 to 42.1% in 1969. Sizeable increase was also recorded in EEC (particularly in the Federal Republic of Germany) where the share climbed up from 5.8%



to 10.6% in the same period. Even France which had been operating on a highly restrictive import licensing system had witnessed a steady increase in intake of Hong Kong products. Meanwhile, exports to Australia and Japan also increased along with successive tariff reductions as the quantitative restrictions they erected were gradually relaxed. Other new markets including Austria and Switzerland etc. had registered rapid access by Hong Kong products over the years. Detailed developments of Hong Kong's exports in various markets are shown in Table 3.4.

However, during the years Hong Kong had, like others, been affected by certain tariff measures instituted sporadically by her major trade partners such as the British 15% surcharge imposed in 1964-1965 and the American temporary sur-tax of 10% in late 1971. Austria, since 1965, and Australia in 1967-1968, had imposed anti-dumping duties on certain items of Hong Kong textiles. But these had not cause serious damage to Hong Kong exports owing to her ability to adjust herself under these adverse conditions.

For some time, the cost differential between Hong Kong and her markets did contribute to the rapid expansion of exports. But considering Hong Kong's size relative to the vast market, inflationary pressures had also been generated. Moreover, since tariff cuts had been accorded to all the developing countries many of which had shifted into export orientation, it signified more intensive competition from the less developed countries.

In an attempt to maintain her competitive advantage, Hong Kong has to switch products and markets. There has been a downward shift in world trade during 1974 and 1975 where economic recession prevailed. But exports of Hong Kong continued to grow in certain markets such as the Federal Republic of Germany despite of the adverse environment. The situation would have been worse if Hong Kong had not been able to shift



Table 3.4 Shares of Selected Markets in Hong Kong Exports  
(in percentages)

	1960	1962	1964	1966	1968	1970	1971	1972	1973	1974	1975
United States	26.0	26.5	27.7	35.5	41.4	42.0	41.5	40.2	35.0	32.4	32.1
Canada	2.7	2.7	2.6	3.1	3.4	3.2	3.5	3.3	2.6	2.7	3.4
United Kingdom	20.4	21.5	21.9	17.2	15.9	12.0	14.2	14.4	14.5	12.1	12.2
EEC - six	5.5	6.8	9.7	11.4	8.7	11.5	11.8	13.9	14.4	15.5	17.1
Federal Republic of Germany	3.7	4.6	6.6	7.3	5.9	8.0	8.2	10.0	9.8	10.7	12.5
Finland	*	0.1	0.2	0.2	0.1	0.2	0.1	0.1	0.2	0.2	0.3
Sweden	1.2	1.5	1.8	1.5	1.8	2.0	1.4	1.7	1.7	1.7	2.1
Norway	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.8
Denmark	0.3	0.6	0.8	0.8	0.7	0.9	0.8	0.8	0.8	0.8	0.8
Switzerland	0.1	0.3	0.5	0.7	0.8	1.0	1.0	1.1	1.4	1.6	1.8
Austria	*	*	0.2	0.2	0.2	0.4	0.4	0.5	0.6	0.6	0.9
Irish Republic	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Japan	3.5	2.3	2.7	2.8	2.8	3.2	3.5	2.1	5.5	4.6	4.2
Singapore	**	**	3.4	2.7	2.3	2.3	2.4	2.3	3.8	2.7	2.7
South Africa	1.4	1.2	1.3	0.9	1.0	1.1	1.1	0.7	0.9	1.2	1.0
Australia	3.0	2.6	2.5	2.2	2.9	2.9	2.9	2.9	4.6	5.7	4.5
New Zealand	1.1	1.1	1.3	1.1	1.1	0.9	0.9	0.8	1.0	1.3	0.8

Source: Calculated from the trade statistics of Hong Kong.

\* Negligible

\*\* Not available



into these markets in recent years. The standardization of Hong Kong products and similar taste in the markets of developed countries have facilitated this switchover.

### 3.2.3 United Nations Conference on Trade and Development (UNCTAD)

The need for the developing countries to attain better access for their exports of both manufactures and primary products to the industrial countries' markets has become most palpable in the 1960s. The less developed countries expressed their hope to obtain more favourable treatment for their exports from the rich nations because they thought that measures undertaken by the rich leading to the removal of trade restrictions were limited in scope for their exports. The argument was based on the fact that the concept of "horizontal equity" (each supplier treated equally) embodied in the principle of nondiscrimination was recognized as unfair to poor countries which were at a competitive disadvantage in the industrial countries, and hence they deserved preferential treatment in these markets. By according special trade concessions to the developing economies, it is thought, tariff preference would provide an element of "vertical equity" (unequals treated unequally) which was necessary considering the economic disparity between the rich and the poor.<sup>13</sup> Thus, with the support of the Soviet Bloc, the developing countries urged to set up a permanent organization specialized in dealing with their trade and development problems. This led to the establishment of UNCTAD in 1964, from which emerged the proposal of duty-free treatment for manufactured

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<sup>13</sup> Ingo Walter and Jae W. Chung, "Non-tariff Distortions and Trade Preferences for Developing Countries", Kyklos, Vol. XXIV (Fasc. 4 1971), pp. 733-750.



and semi-manufactured exports of the developing countries. Although UNCTAD has a host of problems on hand to deal with, only the tariff-preference issue is of relevance to our study here.

Actually, the idea of trade preferences for poor nations was not a new one. A committee had been appointed by GATT in the late 1950s to open up discussions for the possibility of granting nonreciprocal preferential treatment by the developed contracting parties to the less developed ones. Yet in global context, it did not start to gain force until inter-governmental action was taken within the OECD after the second UNCTAD in 1968. Originally, the attitude of the developed nations towards tariff preferences was not favourable. Some supported this proposal while others refused to make any commitment before having much considerations. The United States, which put more stress on the benefits that could be derived from the Kennedy Round, opposed to the suggestion on the basis of nondiscrimination. Eventually, after long-drawn inter-governmental consultations, agreement was reached in 1970 and the various schemes of GSP submitted by the advanced countries entered into force in the early 1970s.

The GSP schemes offered by the rich countries varied substantially in respect of product coverage, preference margin and safeguard.<sup>14</sup> Nevertheless, they generally offer preferential tariff elimination or reduction on industrial products listed in BTN 25-99 except those specified in the 'negative lists', and selected agricultural products (BTN 1-24) itemized

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<sup>14</sup> The safeguards built in the various GSP schemes are mechanisms employed to protect domestic producers against disruption caused by large inflow of products from the preference-receiving countries.



in the 'positive lists'.<sup>15</sup> In most cases, textiles and footwear are denied preferential treatment.

Being the first, Australia introduced her GSP in 1966. It is highly selective with respect to products, margins of preference granted and beneficiary countries on the basis of the "competitive need" principle. And preferences are limited by tariff quotas arbitrarily set to avoid jeopardizing domestic industry. The EEC implemented its scheme in 1971 offering tariff-quota for preferential imports. The United Kingdom version of GSP, effected in 1972, ran parallel with her Commonwealth Preference system.<sup>16</sup> The British scheme affected the industrial products falling within BTN 25-99 excluding mainly various textiles, hydrocarbons and several relatively minor items subject to revenue duties. The Japanese scheme was effective in two phases which took place in 1971 and 1972 respectively. Preferences were limited to 50% tariff reductions for a considerable range of products including hydrocarbons, footwear and apparel. Canada and Ireland offered a one-third tariff reduction except textiles for the former and several groups of industrial products for the latter. With the exception of most textiles, Switzerland and Austria provided linear 30% reductions, while the New Zealand scheme granted Commonwealth Preference to a specific list of products from all the developing countries. The United

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<sup>15</sup> BTN denotes Brussels Tariff Nomenclature classification of products entering international trade. BTN 25-99 comprise of industrial manufactures, semi-manufactures, raw materials and fuels, while BTN 1-24 constitute agriculture-based commodities. Ingo Walter and Jae W. Chung, op. cit.

<sup>16</sup> Britain, along with Denmark and the Republic of Ireland, conformed to EEC practice as regards the scheme from 1974, and started to abolish her Commonwealth Preference.



States, being the latest, announced her scheme in 1976.

As might have been expected, due to her excellent performance in the exporting of manufactures among the developing countries, Hong Kong would always be a borderline case in the considerations of preference-giving.<sup>17</sup> Finally she was included in the GSP schemes except, in most cases, footwear and textiles which had already been under quantitative restrictions for years in major markets.<sup>18</sup>

As the United States and EEC are now the two largest markets for Hong Kong exports, it may deserve to examine in some detail the GSP schemes they implemented. The EEC scheme operates under a complicated three-way tariff quota mechanism — the ceiling, butoir and subquota. The most fundamental concept is the ceiling which represents the maximum amount of the product that is allowed to enter EEC. The magnitude of the ceiling equals the imports from the beneficiaries in 1968 (basic element) plus 5% of the imports from nonbeneficiaries in 1969 (supplementary element). However, the ceilings are not applied inflexibly. For products on the sensitive lists, preferences will be withdrawn once the limits are reached and full duties will be effective immediately for further imports. But for nonsensitive goods, total imports from the beneficiary countries may be permitted to exceed the ceilings. The ceilings are subdivided into butoirs (the maximum participation shares of the beneficiaries). The purpose is to prevent the most competitive developing-country beneficiaries from

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<sup>17</sup> Hong Kong was not included in the American scheme until she announced to abolish her Commonwealth Preference for liquor, manufactured tobacco and motor vehicles.

<sup>18</sup> In 1974, EEC announced to include in its GSP scheme Hong Kong's certain textiles and footwear (other than leather) from 1975. But textiles and footwear from South Korea and Singapore had already been included from the very beginning.



grasping the entire amount within the ceiling. The butoir limit is fundamentally set at 50% of the ceiling. But for most sensitive, many quasi-sensitive, and some non-sensitive goods it is only 20% or 30%. On the other hand, allegedly based on the principle of equitable "burden-sharing" among member states, sub-quotas (internal ceilings) for imports entering individual member states are arbitrarily allocated according to the following percentage "key": Germany 37.5%; France 27.1%; Italy 20.3%; and Benelux 15.1%.<sup>19</sup>

The American scheme is somewhat similar in nature but less complex and more liberal than the EEC one. Manufactured goods other than import-sensitive products are the major benefited items. In regarding market share all beneficiaries are equally treated. With the exception for those products which are not manufactured in the United States, the individual beneficiary will be denied preferential treatment for those products in which it supplies either 50% of the amount of total United States imports or more than US\$25 million on an annual basis.

Because impetus has been provided for manufactured exports of the developing countries since the Kennedy Round, it is rather difficult to assess how much additional incentive these schemes have provided. Besides, events occurred in the 1970s such as exchange rate reforms, energy crisis and the world-wide economic recession preclude us from isolating the effect of the schemes from the entangled situation. However, based on recent UNCTAD estimates, if all GSP schemes came into effect in 1973, only 16% of dutiable imports or 8% of all imports from the developing Asian countries

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<sup>19</sup> See "Trade Relations with the Third World: Emerging Patterns of Trade Preferences" by Harry H. Bell in Robert G. Hawkins and Ingo Walter ed., op. cit., pp. 335-373.



would have benefited from GSP. If only the EEC version was taken into account, corresponding figures would be 13% and 4%. In respect of Hong Kong, only 10% of her exports were covered by the Japanese GSP scheme in 1972, and 25% would have been benefited from the America's in 1973.<sup>20</sup>

Some of the negative aspects of the GSP schemes which may be of some relevance to Hong Kong's position deserve examination here. Since the more advanced developing countries have a wider range of manufactures to export, hence are at a competitive advantage, it is conceivable that they will be more liable to reap most benefits from the preferences. However the safeguard mechanism built into the schemes prohibit these countries from going too far in exploiting the benefits derived from preferences. As in the case of the EEC scheme, the butoir restrictions limit the more advanced beneficiaries from getting the best out of the preferences granted to them. Utilization of the EEC scheme was at an average of only 66% in 1974.<sup>21</sup> Even though the five developing nations including Hong Kong together accounting for 50% of the EEC imports under GSP have the capacity of exporting more to the Community, they will find difficulties in doing so because their preferences would be denied once they reach their butoir limits. Moreover, the internal ceilings for imports into individual member states restrict a beneficiary to concentrate its exports on one or two markets, thus lower the effective GSP the beneficiary can enjoy. Hence it is necessary for those beneficiary countries such as Hong Kong, which have traditionally been major suppliers of certain products to one or two

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<sup>20</sup> Report by Dick Wilson in Far Eastern Economic Review, op. cit.

<sup>21</sup> Report by Malcolm Subham in Far Eastern Economic Review, op. cit.



markets, to diversify their exports within the Community. Similar result occurred in the American scheme as estimates in 1971 showed that only 10% of all United States dutiable imports from the poor countries would have been eligible for preference after the rule of the US\$2.5 million-50% limitation is applied, instead of 40% before its application.<sup>22</sup>

Meanwhile, GSP schemes tend to discriminate against the more competitive beneficiaries and favour the less ones. Classification of preference-receiving countries and the preference they can enjoy are reviewed annually and will be adjusted according to the countries' "competitive need" in respect of products itemized in the preferential list. Thus, an efficient beneficiary may find it difficult to improve access for its exports. Consequently, the more advanced beneficiaries will find themselves facing a keener competition as the less advanced ones gradually develop their ability to export manufactures by taking advantage of the higher effective GSP schemes they can enjoy.

Therefore, despite of the success in the exporting of manufactures that Hong Kong has achieved over the years, she will find it more difficult than ever to sustain this accomplishment owing to the discriminatory effects of the GSP schemes and growing competition.

### 3.3 SUMMARY

Although tariffs are still widely used as an instrument to restrict imports, their effectiveness have been largely offset by a series of tariff concessions under the auspices of GATT parallel with the improvements in productive efficiency over the years. The most direct method to assess the

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<sup>22</sup> See Guy F. Erb, "The Developing Countries in the Tokyo Round" in The United States and the Developing World — Agenda for Action 1974, edited by James W. Howe, (Overseas Development Council, 1974), pp. 85-94.



effect of tariff is by comparing the exports of products which have been affected by tariff changes with those which have not been affected. However, this requires strong assumptions of neutrality of all factors other than tariffs, such as quantitative restrictions, so that the effect of tariff changes under scrutiny may be isolated. This approach is more appropriate for short-term analysis of one tariff adjustment. Thence, it would be very complicated, if not inappropriate, for our study, which covers a time period of more than two decades overlapping with various and continuous tariff developments, to adopt this approach in the evaluation of tariff effects. Therefore, we try to perceive the impact of tariff on Hong Kong's exports through a historical review of tariff developments which have affected Hong Kong during the postwar years.

In addition to the economic expansion of the advanced countries, three major developments in tariff are thought to be of particular concern to Hong Kong's export growth. In the first place, it was the Commonwealth Preference which provided the first impetus to the development of Hong Kong's manufacturing industries, particularly cotton textiles. By exploiting the advantage of Commonwealth preferential treatment, Hong Kong was able to have a head-start on other developing countries in building up her industrial base. But the most important one was the general trend of tariff reductions undertaken by the developed countries, which culminated in the 1960s. During this decade, Hong Kong was in the most favourable position since her start in export drive. On the one hand, she was able to take advantage of tariff liberalization by increasing her "cheap" manufactures to the markets of the developed countries; on the other hand, she was well ahead in the exportation of manufactures comparing with other less developed countries. This made her superiority in exports of



manufactures hard to be challenged. Although Hong Kong had sporadically come across some unfavourable tariff treatments, she was capable of adapting herself to the adverse situations by changing her market and product compositions. However, towards the end of the 1960s, as more of the developing countries became able to reap the benefits from the tariff cuts and gained in capacity of producing a wider range of manufactures, and many of them witnessed remarkable success in shifting into production for export markets, Hong Kong was confronted with a keener competition. Relatively speaking, these countries have even lower labour cost. The effect of GSP under UNCTAD is hard to be ascertained. At least it may not be a blessing to the more advanced less-developed countries like Hong Kong due to the discriminatory elements built into many of the schemes.

Nevertheless, the average tariff level in the developed countries at present is so low that further reduction is likely to induce resistance from domestic protected interests. Indeed, tariffs have lost their significance as trade hinderance comparing to the nontariff issues. The developing countries as a whole may not be too concerned with the success in further tariff reductions in the Tokyo Round. They show much eagerness in the elimination of nontariff barriers. After all, general tariff reductions may have the effect of undercutting the margin of preference they obtain in the GSP.



Chapter 4 NONTARIFF TRADE BARRIERS — QUOTAS

Nontariff trade barriers include all measures other than tariffs, which tend to distort, directly or indirectly, the volume, or product-composition of international trade. Many of them are employed as instruments of commercial policy, e.g., quotas, subsidies to import-competitors, and variable levies. Quantitative restriction which usually takes the form of import quotas is the most prominent one.

Some of the nontariff measures, such as packaging and marking requirements, phytosanitary regulations, customs valuation and classification practices, are sporadically employed with trade-restriction as the prime target, while certain other measures are taken for nontrade purposes but embodied with trade restrictive effects, e.g., certain types of consumption taxes and government monopolies.

Some of the nontariff barriers influence the volume and pattern of trade by directly affecting relative costs and prices as in the case of import sur-charges, while some others work through quantitative limitations as in the case of quotas. Certain measures are highly variable over time or dependent upon the discretion of the authorities concerned, and some of them are applied in a clandestine manner. Anyway, lacking in the information about their specific administration is a common phenomenon. Thus, uncertainties arise from such measures bearing additionally on importers and foreign exporters tend to reinforce the primary effects of the nontariff obstacles themselves.

Moreover, Ingo Walter showed that nontariff barriers may actually impose an extraordinary burden on the developing countries. This is because the impact of nontariff obstacles on the developing countries tend



to be more severe than that on the competing developed countries, and these measures usually fall on products which are of competitive advantage to the former in the international market. He found that at least 17 out of the 38 types of more or less identifiable nontariff barriers are biased against the developing-country suppliers.<sup>1</sup>

The first attempt to outlaw the use of quantitative import restrictions took place in November, 1927 when 29 countries signed the International Convention for the Abolition of Import and Export Prohibition and Restrictions. But this effected for only a brief period. The second attempt was undertaken by GATT in 1947. Quantitative restrictions are considered as improper means of regulating trade flows because they cannot be operated on a nondiscriminatory basis. Being stated in Article XI of the General Agreement, quantitative restrictions are prohibited except in cases of difficulties encountered in the balance of payments and agricultural support programmes. Based on these exceptions, quantitative restrictions were legitimized by GATT. It should be noted that owing to these "escape mechanisms", the practical benefits derived from the GATT provisions in respect of the abolition of quantitative restrictions are greatly reduced.

#### 4.1 QUOTA RESTRICTIONS

Among the nontariff barriers, quantitative restrictions are the most widely-used and easily identified ones which frequently take the form of quotas. Quota restrictions on imports are generally of two types: absolute quotas and tariff quotas. Absolute quotas are those which impose a maximum

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<sup>1</sup> See "Nontariff Barriers and the Export Performance of Developing Economies" by Ingo Walter, American Economic Review, Vol LXI (May 1971), pp. 195-205.



limit on the value or quantity of goods which may be imported in a specific period (usually one year). Tariff quotas establish no maximum on the total amount of imports provided that a specified quantity of imports may enter free of duty or at a lower rate of duty during a given period and that all imports in excess of that quantity will pay the usual, higher rate.<sup>2</sup>

Besides, quotas are also classified according to whether they are allocated or unallocated. The unallocated quota, sometimes called the global quota, specifies a stated quantity of permitted imports for a given period of time regardless of the origin of those imports.

The major shortcoming of the global quota system is that it tends to satiate the market at one time and starve it at another. For quota-receiving countries will seek to obtain greater portions of the quota by exporting as much as they can to the importing country early in the quota period. Hence, towards the end of the quota period, shortages of the product will unavoidably occur. This will cause sharp fluctuations in the price of the product on the local market. Further, the system may in fact discriminate against the suppliers of those countries which are relatively far from the market as neighbouring countries are able to move larger quantities of their goods into the quota country before more distant countries can even start to deliver.

To remedy these shortcomings, the allocated quota or country quota is used. The importing country first specifies the total amount of goods which may be imported and then allocates portions of that quota to various exporting countries. Although this system remedies the defects of the

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<sup>2</sup> Many of the quotas granted by EEC to the developing countries are tariff quotas.



global quota system, it tends to freeze the market position of exporting countries. It makes little room for new suppliers or those who have improved their productive efficiency and hence able to export more. This effect is particularly important to the developing countries which seek outlets for their newly established manufacturing industries because they are either new competitors, or competitors who have improved the efficiency of their infant industries. Of course, this problem can be dealt with by periodic reallocation of quotas among exporting countries.

During the earlier postwar years, quota restrictions were mainly used to safeguard the external financial position. Many internationally traded goods such as coal, petroleum and certain agricultural products are subject to quota restrictions for other reasons. However they can hardly compare with those on textiles in respect of product coverage and complexity. Much worth to worry is that the trend of quota restrictions tend to spread into other areas of trade in manufactures. The allegation for the increasing use of imports in more recent years is quite different from that of earlier years where balance of payments problems accounted principally for the use of quotas. Instead, it is because the developing countries' exports of manufactures, especially textiles, have undergone rapid growth which, the developed countries considered, have caused disruption in their local markets. Therefore, severity of the quota restrictions on textiles grows with the increase of the developing countries' efficiency in producing and exporting these products. This proliferating use of quota restrictions reflects the increase in competitive advantage of the developing countries in these products. As more and more of the developing economies become able to sell their commodities over the tariff barriers erected by the developed countries, quota restrictions instituted by the latter have become more significant barriers to exports from the former than tariffs.



Form the standpoint of the importing country, quotas are of course preferable to tariffs. For once a quota is imposed, a certain market share can be reserved for the local producers regardless of the improvements in productive efficiency achieved by foreign suppliers. In addition, tariff concessions influence a vast range of products and their effects on certain products will inevitably be more substantial than on others, so that domestic producers of these products will be affected more. But withdrawal of tariff reductions will be improper as it contravenes the spirit of tariff liberalization. In this case, quota restrictions may be applied to those products which after tariff cuts are more vulnerable to foreign competition. These explain why the developed countries grant tariff concessions on the one hand, and proliferate the use of quota restrictions on the other.

But to the exporting countries, quotas frustrate their endeavour to export expansion. Quotas will not confer advantages on those efficient foreign producers against others. In the case of tariffs, efficient producers can sell over these barriers; in confrontation with a quota, they can do nothing except hoping to make the best out of it through negotiations.

To many of the developing countries, the most important quantitative restrictions existing today are quotas imposed by the developed countries on their exports of textiles. These can be traced back to the time when Japan sought full membership in GATT. Many of the Contracting Parties were afraid that cheap Japanese goods would "flood" their markets if Japan were accorded full membership in GATT.<sup>3</sup> But quantitative restrictions

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<sup>3</sup> Although tariff rates on cotton textiles in the major Western nations were already high at that time, low-priced Japanese textiles could penetrate these barriers.



were not permissible under the GATT provisions apart from the two mentioned exceptions. Consequently, Japan "voluntarily" agreed with several of the Contracting Parties to restrict exports of cotton textiles. In fact, apart from Japan, the developed countries worried about future exports from their developing trade partners.

As a result, at the initiative of the United States, GATT adopted another exception — entitled "market disruption", according to which quantitative restrictions might be applied. Thus following the Japanese case, similar arrangements were worked out by the United Kingdom in respect of cotton textile exports from Hong Kong, India and Pakistan in the late 1950s. Later, similar arrangements were concluded between almost all advanced countries and a number of the developing countries. These arrangements have been renewed and product coverage extended repeatedly over the years until eventually all sorts of textile products, including clothing, are brought under a systematic scheme of quotas.

The imposition of quota usually takes place step by step. When control on certain imports is needed, the importing country may first advise the exporting country to undertake some sort of export authorization so as to keep a close watch on the development. Sometimes certain negotiable amounts are worked out as signposts for further action. If further control on imports is necessary, the importing country may request its foreign supplier to restrain its exports voluntarily, or directly impose quotas on relevant products.

In many cases, the exporting country is willing to undertake "voluntary restraint" prior to direct imposition of the quotas by the importing country, as by moving unilaterally towards self-restraint it may have a better chance to retain its existing market share. This is



very important for those who have already occupied sizeable portions in the market. Besides, the exporting country fears that if it does not agree to the proposal of "voluntary restraint", the alternative would be a direct imposition of import quotas on their exports.

#### 4.2 HONG KONG'S EXPERIENCE WITH QUOTA RESTRICTIONS

Prior to the late 1950s, Hong Kong's textile products had free access to the British market, and under the umbrella of the Commonwealth Preference the products were allowed duty-free entrance. During the period 1953 to 1958, Hong Kong's exports of cotton textiles had experienced rapid growth in the United Kingdom as her market share of greycloth in Britain had shot from 1% to 34%.<sup>4</sup> But the good time signalled red light in 1956 when Hong Kong began to feel heavy pressures from the United Kingdom for the restriction of her exports of cotton piecegoods. During that year, a heated campaign which culminated in June of the same year was mounted by Lancashire in protest against the flooding of cheap cotton textiles from Hong Kong, India and Pakistan.

Consequently, an agreement was worked out between Hong Kong and the United Kingdom to restrict Hong Kong piecegoods exports to the British market. This was the so-called Lancashire Pact which entered into force on February 1, 1959, requiring Hong Kong to restrain her exports of cotton garments and piecegoods to 164 million square yards annually for a period of three years. This arrangement has been extended with revisions in certain details a few times until 1972. Annual increment for the total quota limit was permitted, but product groups under restraint were re-

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<sup>4</sup> Hong Kong Textile Annual 1961, p. 77.



classified into finer categorization with some of the items subject to separate sub-quotas. Usually, quota for those items in the supersensitive and sensitive lists were more difficult in obtaining upward adjustments. No restriction was imposed on non-sensitive goods but if they reached a certain level they would be regarded sensitive and subject to restriction in the following year. Within limited extent, "swing" between product groups was permissible. Other flexibility features included carry-over of the unused quota into the following year and some allowance for over-fulfilment of an annual quota provided that next year's quota would have to be curtailed by the same amount.

In 1972, an arrangement was worked out for Hong Kong to limit her exports of woven cotton and polyester/cotton fabrics, garments and made-ups to Britain for a period of 15 months from October of the same year. Doubtlessly, this arrangement has gone beyond the scope of cotton textiles which had originally been concluded in the Lancashire Pact. Upon its expiration at the end of 1973, the arrangement was immediately replaced by a new agreement concluded between Hong Kong and the enlarged EEC (nine) covering cotton, wool and man-made fibre textiles due to the Britain's entry into the EEC.

No sooner had the United Kingdom negotiations been settled in the late 1950s, attention was turned to the discussions proposed by the United States held under GATT on the problems of "sharp increases in imports, over a brief period of time in a narrow range of commodities [which] can have serious economic, political and social repercussions in the importing countries".<sup>5</sup>

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<sup>5</sup> Gilbert P. Verbit, Trade Agreements for Developing Countries, (Columbia University Press, 1969), p. 58.



All these were attributable to the fear of causing "market disruption" in the developed countries by the inflow of "low-priced" Japanese cotton textiles, and the worry about future exports from the developing countries that might soon begin to disrupt their markets with a variety of products. Thus under the United States proposal, a Short-Term Arrangement Regarding International Trade in Cotton Textiles (STA) was first reached for 1961-1962 as an interim arrangement for the five years Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) which became effective from October 1962 to September 1967. According to the arrangements, the importing countries were offered authority to request the exporting countries to restrain their exports of cotton textiles.<sup>6</sup> Upon its expiration, the Long-Term Arrangement was replaced by a new Arrangement Regarding International Trade in Cotton Textiles (CTA) for three years, which was later renewed in 1970 for another three years until 1973. By this time, product coverage had already been extended to include those non-cotton textiles. By 1974, a new Multi-Fibre Arrangement Regarding International Trade in Textiles (MFA) was concluded which, covering all sorts of textile products, was effective from 1974 to the end of 1977. All these arrangements, established under the auspices of GATT, have provided groundwork for the importing and exporting countries to tackle the problems arising from textile trade. It was under this general framework

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<sup>6</sup> The Arrangement defines cotton textiles to include yarns, fabrics, made-up articles, garments, and other textile manufactured products, in which cotton represents more than 50% (by weight) of the fibre content. But in 1967, the United States adopted a dual criteria which specified that piecegoods, made-ups and garments shall be judged to be cotton where either the chief weight or the chief value of the fibre content is cotton. Report by L.C. Chung in Asian Textile Survey, printed by Far Eastern Economic Review, (Hong Kong, 1970), p. 88.



that Hong Kong entered into various bilateral agreements with individual developed countries, notably the United States, the EEC countries, Australia, Canada and Sweden.<sup>7</sup> It should be noted that the Hong Kong — United Kingdom undertaking was not within the domain of GATT.

The various agreements made between Hong Kong and the developed countries varied a lot in respect of complexity and administration. But all of them tend to become more and more severe. For instance, under the STA between Hong Kong and the United States, 30 categories of cotton textiles were put under restraint. But this later extended to 37 categories and finally all cotton textiles under the LTA. In 1972, the Hong Kong — United States Man-made Fibre Wool Textile Agreement came into effect for a period of five years for Hong Kong to exercise voluntary restraint over her exports of man-made fibre and wool textiles. The agreement was later replaced by a new arrangement under the MFA covering all textiles. Annual growth rate for quota ranged from 1% to 5% depending on categories. Other flexibility features included "swing" and "carryover". In the mean time, sub-quotas were imposed on specific groups and categories, and it was not allowed to "swing" into sensitive categories. Thus the allowance for "swing" would be limited as products became more detailly categorized. This had made Hong Kong become more difficult in fulfilling her quota because of the growing rigidity of the system. In fact, same difficulties had been encountered in Hong Kong's agreements with other countries.

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<sup>7</sup> Agreements were made with individual member states of the EEC before 1971, but with all the member countries together since that year.



#### 4.3 HONG KONG'S POLICY REGARDING INTERNAL QUOTA ALLOCATION

In an attempt to maximize utilization of the quota, Hong Kong has developed a mechanism for allocating the quota to local exporters. The administration of quota allocation is in the hands of the Department of Commerce and Industry, from which permits for the exports of products subject to specific quotas must be obtained. Others not bound by specific quotas also require export authorization from the Department in order that they can remain under control and avoid exceeding the "basket limit".<sup>8</sup>

Quotas are basically allocated according to past performance with some flexibility measures, which aim to give larger quotas to those producers who have demonstrated better ability of utilizing the quotas available to them.

At the beginning of a quota-year, quotas are allocated according to the exporters' actual shipments in the previous year. Those who have shipped 95% or more of the quotas apportioned in the preceding year will be allocated with the same amount in addition to a certain percentage growth depending on the total amount of quotas available. Those who have utilized between 50% and 95% of the quotas assigned in the former year will be given quotas equal to their actual shipment in that year. On the other hand, exporters who have used less than 50% will receive no allocation at all.

After allocation has been finalized, exporters can apply for quotas

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<sup>8</sup> Within a group of products subject to quota, there are categories which have specific sub-quotas while others have not. The "basket" is comprised of those which are not subject to specific sub-quotas. However, the combined exports of these categories cannot exceed the difference between the group quota and the sum of specific sub-quotas within that group.



left unallocated under a Free Quota Scheme on basis of "first come first served". But quotas obtained under this Scheme are not allowed for transfer and holders will be penalized if the quotas are not used within a specified period. However, performance against these quotas will be eligible for allocation in the following year. Any further left-over will be allocated under the Year-End Special Shipment Scheme. A High Hong Kong Cost Content Scheme was introduced in 1962 to provide special allocation for cotton textiles destined to Britain with high Hong Kong content.

Notwithstanding that all these measures are arranged to allow actual users a better chance of acquiring larger quota allocation, they tend to benefit the large and well-established firms more and biased against the new comers. Another disadvantage of allocation by past performance arises from the fact that performance against quotas of different categories may vary yearly; and there are also seasonal fluctuations in the exports of different items. Therefore, exporters may sometimes find themselves holding too much quotas in some items but inadequate in others.

Thus, in order to achieve better utilization, transfer of quotas are permitted after allocation has been finalized. Under these circumstances, an open market for quota transference has come into existence with the price determined on demand and supply conditions. Transfers are of permanent and temporary types. Quotas of permanent transfer type are qualified for allocation in the succeeding year, while those of the temporary type are not.

But this devise of quota transfer has been accused of becoming a matter of speculation, for some of the exporters tend to seek profits simply by selling and purchasing quotas. This causes the quota prices sometimes become unreasonably high, even allegedly as high as 100% of the cost of



production for certain "hot" garment items. Nevertheless, transfer is still an efficient way to maximize quota utilization. Since exporters will not purchase quotas from the free market if they cannot bear the cost of transfer price, this may automatically channel quotas to the more efficient producers. Meanwhile, those exporters who attempt to make profit by speculating in the quota market cannot go very far as out-transfers will cause future reductions in their quota allocations. Recently, a Surrender Scheme has come into effect aiming to prevent wasting of unused quotas arising from unnecessary holding. Under the Scheme, holders can surrender their unutilized quotas to the Department of Commerce and Industry in return of less reductions in future allocations than in the case of out-transfers or wastes.

Besides, other flexibility provisions are also offered in line with agreements between Hong Kong and the importing countries. For example, exporters can "swing" a certain percentage or an absolute amount of their quota holdings from "specific" categories to "basket" categories. But the reverse cannot be done as products categorized in the "specific list" are usually "hot" items subject to specific limits. It should be noted that "swing" does not affect the qualification for future allocation. Apart from that, an exporting firm can over-fill its present quota to a certain limit in return for reduction in its allocation of the following year. But "carryover" of unused quotas to the succeeding year is not allowed in order to prevent hoarding of quotas that can be used by others.

#### 4.4 PERFORMANCE AGAINST QUOTAS



Table 4.1 Performance Against Restraints under  
GATT Cotton Textiles Arrangements  
(as percentage of restraint limit)

Country & Coverage	61/62	62/63	63/64	64/65	65/66	66/67	67/68	68/69
<u>U.S.A.</u>								
30 categories	105.9	98.3						
36 categories			96.9					
37 categories				99.5				
All cotton textiles					108.2	94.3	102.2	100.4
<u>F.R. GERMANY</u>								
woven nightwear			88.3	89.3	100.0			
7 groups						93.6	98.7	100.9
<u>BENELUX</u>								
woven shirts					84.2	72.9		
5 categories						88.5		
6 made-ups and garment categories							67.4	
All cotton textiles except yarns								79.4
<u>SWEDEN</u>								
5 groups of garments								83.6
<u>NORWAY</u>								
woven nightwear		99.8	94.2	98.9	100.0	100.0	97.3	
woven sport and work shirts		97.8	89.0	56.8	39.1	52.5		
4 categories of cotton garments								83.0
<u>CANADA</u>								
4 garment categories	103.9							
6 " "		86.3	78.9					
7 " "				84.2				
5 " "					86.1	81.8	103.8	102.3
6 fabric categories				157.6				
11 " "					94.0			
All fabrics including 5 specific categories						70.8	39.8	43.8
Towels								84.8

Source: Calculated from data given in Annual Reports of the Department of  
Commerce and Industry.



Table 4.2 Performance Against Quotas under the  
British Cotton Textiles Agreement  
(as percentage of restraint limit)

Description	1962	1963	1964	1965	1966	1967	1968
Yarn		100.0	99.1	98.8	97.6	97.2	94.2
Loomstate Piecegoods	} 100.9	} 99.1	} 99.9*	} 127.9*			
Finished Piecegoods					88.5	75.8	90.0
Made-ups and Garments	105.1	99.5	99.9	66.6	101.8 98.1	100.0 96.5	101.3 103.5
Miscellaneous Cotton Manu- factures					60.0	82.4	89.5

Source: Calculated from data given in Annual Reports of the Department of Commerce and Industry

\* A supplementary quota was included.



From Table 4.1 above, we can see that Hong Kong's performance against restraint on cotton textiles under the GATT arrangements has been remarkably satisfactory for most of the categories during the 1960s. And in the early 1970s, performance in the British and American markets was still well over 90%. However, performance has become poorer in the recent years. Several factors can account for this deterioration. In the first place, product coverage of the restraint programme has been extended repeatedly over the years. If the coverage only includes those products which are considered "hot" items for which demand in the importing countries is buoyant, the quotas will most probably be utilized to the full limit. But as coverage has been extended to embrace those goods for which demand is relatively sluggish, the extent to which the overall quota can be utilized will, of course, be lowered.

Secondly, the categorization of product groups has become more detailed with more products listed as "hot" items subject to specific sub-quotas. Quotas of these items are the most probably to be fully utilized. On the other hand, there are categories with unused quotas. The limitation of swinging these unused quotas into specific categories prevents the maximization of utilizing the overall quota. Therefore, the finer the categorization of products and the more concentrated the demand for specific categories, the more difficult it will be in utilizing the overall quota to the full limit.

Finally, performance against quota restraints depends on the demand of importing countries for Hong Kong exports and the competitiveness of Hong Kong products comparing to that of her rivals. If demand for the restrained items in which Hong Kong has a competitive advantage is buoyant performance against these categories will be high.



As in the case of the Hong Kong — United States bilateral agreements, product coverage had been extended from 37 categories in the early 1960s to all cotton textiles in the mid-1960s. Later it was extended further to include all textiles in 1971/72. Concomitantly, categorization of products has become more detailed with limited allowance for "swing". As can be seen from Table 4.3 which illustrates Hong Kong's performance in various groups and categories in 1973/74 in the United States market, good performance tends to concentrate in the specific categories. However, overall utilization is not quite satisfactory owing to the prohibition of swinging the unused quotas in the basket categories to the specific ones.

As shown in Table 4.4, similar result can be found in the EEC market in 1974. Of the 6 specific and 16 basket categories, only the quotas of the two specific categories, "woven trousers for men and boys" and "woven outer garments for women, girls and infants" had been fully utilized, and overall performance was only 86.3%

With a more detailed categorization as in the case of Britain demonstrated in Table 4.5, performance in 1974 was much worse than those in the American and EEC markets. Actual shipments of the categories under restriction rarely reached 80% of the restraint limits. Only two specific categories, namely, "sheeting and shirting, 60" and over in width" and "corduroy" had achieved the levels of 86% and 89.1% respectively. Overall performance other than cotton yarns was only 68.1%.

#### 4.5 EFFECTS OF QUOTA RESTRICTIONS

In confrontation with tariffs, an exporting country can manage to alleviate their effects on its exports by reducing production cost or the profit margin provided that the tariffs are not too high. But in the case



Table 4.3 Performance Against Quota Restrictions in  
the U.S. Market for the Year 1973-74  
(as percentage of restraint limit)

Description	Performance
<u>1. Textile Yarns &amp; Fabrics</u> Cotton with 6 specific categories, of which Twill and sateen 16 basket categories <u>Man-made Fibre</u> with 14 basket categories <u>Wool</u> with 10 basket categories	80.5     97.6     
<u>2. Textile Garments</u> <u>Cotton</u> with 15 specific categories, of which Knit shirts and blouses Men's and boys' dress shirts Men's and boys' sport and work shirts All other coats, not knit 9 basket categories <u>Man-made Fibre</u> with 9 specific categories, of which Knit shirts and blouses Sweaters and cardigans, knit 18 basket categories <u>Wool</u> with 1 specific category 14 basket categories	61.0  75.0  96.9 113.9 110.7 103.1  50.0 95.7 102.6  40.9
<u>3. Textile Made- ups and Misc. Articles</u> <u>Cotton</u> with 4 specific categories, of which Shop towels 6 basket categories <u>Man-made Fibre</u> with 3 basket categories <u>Wool</u> with 4 basket categories	83.8     99.7
<u>4. Corduroy Used in Cotton Apparel</u> with 8 basket categories	65.6

Source: Calculated from data given in the Department of Commerce and Industry's Annual Statistical Review 1974-75.



Table 4.4 Performance Against Quota Restrictions on Cotton Textiles  
in the EEC (Six) Market for the Year 1974  
(as percentage of restraint limit)

Description	Performance
6 Specific Categories:	
(1) Woven trousers for men and boys	101.2
(2) Woven outer garments for women, girls and infants	101.2*
(3) Woven shirts for men and boys	36.7
(4) Woven undergarments for men and boys	48.3
(5) Woven undergarments for women, girls and infants	27.9
(6) Handkerchiefs	83.3
16 Basket Categories	
Overall	86.3

Source: Calculated from data given in the Department of Commerce  
and Industry's Annual Statistical Review 1974-75.

\* Shipments include "swing" and "carryover".



Table 4.5

Performance Against Quota Restrictions on Cotton and  
Polyester/Cotton Textiles in the British  
Market for the Year 1974  
(as percentage of restraint limit)

Description	Performance
1. <u>Yarns (Cotton only) with</u> 1 specific category: Yarns, folded, grey or processed 1 basket category	74.1  61.2
2. <u>Woven fabrics, grey or bleached,</u> <u>mercerised or not</u> 4 specific categories, of which Sheeting and shirting, 60" and over in width 1 basket category	*  86.0
3. <u>Other woven fabrics</u> 4 specific categories, of which Corduroy 1 basket category	53.7  89.1
4. <u>Made-up articles, etc.</u> 9 specific categories, of which Woven shirts and bodices, men's and Boy's Woven undergarments, women's, girls' and infants' 1 basket category	62.2  61.4  76.9
Group 2, 3 & 4 Total	68.1

Source: Calculated from data given in the Department of Commerce and Industry's Annual Statistical Review 1974-75.

\* No specific restraint limit for this group, but shipments are subject to aggregate restraint limit for groups 2, 3 and 4.



of quotas which aim to exert direct absolute limitation on the quantity of imports, the exporting country can do nothing except to diversify its exports into products which are not subject to restriction, or try to increase the value of exports, which implies the improving of product quality.

Tables 4.6-8 show the relative importance of Hong Kong's major exports of manufactures to the world, developed countries and developing countries respectively. Table 4.7 is particularly relevant as a large part of the exports are destined to the developed countries and quota restrictions are mainly imposed by these countries. As can be seen from Table 4.7, the relative importance of textile products has dropped substantially from a share of about one-fifth in the manufacturing exports to the developed countries in 1960 to less than one-tenth in 1975, even though its value has increased nearly three-fold during the same period. Similar pattern can be found in the footwear industry. On the other hand, relatively new industries such as electrical machinery, watches and clocks etc., particularly the former, which has surpassed textiles as Hong Kong's second largest exporting industry, has increased more than ten-fold during the same period. In the meantime, clothing, which like textiles had been subject to severe restraint, remained relatively stable in export importance.

The significant contrast in performance between the textile and clothing industry deserves some explanation. By comparing the average growth rates of textile and clothing exports of the period 1956-1961 and 1962-1970, Ronald Hsia showed that the growth rate of textiles had declined from 19.3% to 7.8%, while that of clothing had slightly increased by 1.1%.<sup>9</sup> He attri-

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<sup>9</sup> Ronald Hsia, "Hong Kong Textile Exports — A Case Study of Voluntary Restraints", in Obstacles to Trade in The Pacific Area, edited by H.E. English and K.A.J. Hay, (Carleton University, 1972) pp. 167-183.



Table 4.6 Hong Kong's Exports of Manufactures — Selected Items, 1960-1972  
(in percentages)

SITC Code	Brief Description	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
65	Textile Yarn, Fabrics etc.	22.0	25.9	19.8	18.8	17.5	18.0	17.2	14.8	13.0	11.3	10.9	10.6	10.6	12.6	12.5	9.8
69	Manufacturers of Metal					3.6	3.4	3.3	3.2	3.0	2.9	2.9	2.6	2.8	2.8	2.9	2.8
71	Machinery, other than Electric	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.6	0.7	0.6	0.8	0.7	0.7	1.1	1.4	2.2
72	Electric Machinery, Appliances etc.	1.9	2.8	3.6	4.4	4.6	6.3	8.9	9.4	9.7	10.6	11.0	11.7	13.5	14.1	15.0	12.7
831	Travel Goods, Handbags etc.	0.8	0.8	1.1	0.8	1.0	1.0	1.1	1.3	1.6	1.4	1.5	1.7	2.1	2.2	2.0	2.1
841	Clothing, except fur	40.1	33.4	38.5	40.0	40.1	38.2	38.0	36.7	37.7	38.4	36.9	41.6	41.9	39.8	39.6	45.9
851	Footwear	4.5	4.0	4.3	4.2	4.3	3.3	3.4	3.4	3.4	3.0	2.6	2.7	2.1	1.4	1.4	1.2
864	Watches & Clocks	0.2	0.1	0.2	0.1	0.1	0.2	0.5	0.7	0.9	1.1	1.2	1.3	1.4	1.6	2.3	2.9
893	Articles of Artificial Plastic Materials	0.6	0.7	0.8	0.8	0.7	0.6	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.3	1.3	1.1
894	Perambulators, Toys, Games etc.	4.6	5.3	5.6	6.1	7.4	8.3	8.7	9.1	9.9	9.3	9.5	9.6	9.6	8.9	8.3	7.3
897	Jewellery					1.4	1.1	1.1	1.3	1.4	1.3	1.6	1.6	1.8	2.3	2.2	2.3
899940-959	Wigs & Hair Products					0.2	1.6	1.3	3.1	3.9	6.4	7.1	3.9	1.5	0.5	0.2	0.1
812	Sanitary, Plumbing etc. Fixtures					2.3	2.4	2.2	2.1	1.9	1.6	1.5	1.4	1.4	1.4	1.4	1.1
861	Scientific, Medical etc. Instruments					0.3	0.5	0.7	0.6	0.7	0.6	0.6	0.6	0.7	0.8	1.0	1.0
Others						15.9	14.5	12.5	13.1	11.5	10.7	11.0	9.0	8.8	9.2	8.5	7.5

Source: Calculated from the trade statistics of Hong Kong.



Table 4.7 Hong Kong's Exports of Manufactures to Developed Countries — Selected Items, 1960-1972

(in percentages)

SITC Code	Brief Description	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
65	Textile Yarn, Fabrics etc.	21.3	23.4	20.3	18.4	16.0	16.4	15.4	13.4	11.8	9.8	9.1	9.4	9.0	10.2	10.1	8.3
69	Manufactures of Metal					1.7	1.8	2.0	1.9	1.9	2.0	2.2	2.0	2.3	2.3	2.4	2.2
70	Machinery, other than Electric	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.1	0.2	0.7	1.0	1.9
72	Electric Machinery, Appliances etc.	1.2	2.1	3.0	3.9	4.5	6.8	9.8	10.0	10.4	11.3	11.4	11.8	13.8	14.2	15.3	12.7
831	Travel Goods, Handbags etc.	0.5	0.5	0.9	0.6	0.8	0.9	0.9	1.1	1.4	1.3	1.4	1.7	2.0	2.2	2.0	2.0
841	Clothing, Except fur	46.5	38.9	43.0	44.4	44.0	41.5	41.2	39.4	40.3	40.7	39.2	44.7	45.0	43.6	43.9	50.1
851	Footwear	4.8	4.4	4.5	4.2	4.3	3.1	3.4	3.5	3.5	3.0	2.6	2.8	2.1	1.5	1.5	1.2
864	Watches & Clocks	0.2	0.2	0.2	0.2	0.1	0.2	0.3	0.5	0.5	0.7	0.8	0.8	0.8	1.0	1.5	2.1
893	Articles of Artificial Plastic Materials	0.3	0.4	0.6	0.6	0.6	0.4	0.4	0.5	0.6	0.7	0.9	1.0	1.0	1.3	1.3	1.0
894	Perambulators, Toys, Games etc.	6.0	7.3	7.0	7.6	9.0	9.7	10.1	10.5	11.6	10.4	10.6	10.6	10.6	10.0	9.5	8.1
987	Jewellery					1.4	1.0	0.9	1.1	1.1	1.0	1.4	1.3	1.4	1.9	1.9	2.0
899940-959	Wigs & Hair Products					0.3	1.9	1.6	3.8	4.7	7.6	8.4	4.5	1.7	0.6	0.2	0.2
812	Sanitary, Plumbing etc. Fixtures					1.6	1.8	1.7	1.5	1.3	1.1	1.0	1.0	1.0	1.0	1.0	0.7
861	Scientific, Medical etc. Instruments					0.3	0.5	0.8	0.6	0.8	0.6	0.6	0.6	0.7	0.8	1.1	1.0
Others						15.3	13.9	11.4	12.1	10.0	9.7	10.1	7.7	8.4	8.7	7.3	6.5

Source: Calculated from the trade statistics of Hong Kong.



Table 4.8 Hong Kong's Exports of Manufactures to Developing Countries — Selected Items, 1960-1972

(in percentages)

SITC Code	Brief Description	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
65	Textile Yarn, Fabrics etc.	23.4	30.4	18.7	19.8	22.7	24.3	24.7	20.9	18.8	19.2	20.3	18.1	20.7	25.7	23.8	16.7
69	Manufactures of Metal					10.0	9.7	8.6	8.6	8.4	8.1	7.0	6.5	6.4	5.6	5.5	5.6
71	Machinery, other than Electric	1.3	1.3	1.8	2.0	2.3	2.4	2.2	2.7	3.8	3.4	3.4	3.8	3.6	3.7	3.5	3.6
72	Electrical Machinery, Appliances etc.	3.3	4.1	4.9	5.8	4.9	4.6	5.2	6.6	6.5	7.1	9.0	11.4	11.6	13.4	14.0	12.6
831	Travel goods, handbags etc.	1.5	1.3	1.5	1.4	1.5	1.5	1.8	2.0	2.4	2.2	2.0	2.2	2.4	2.0	2.1	2.5
841	Clothing, except fur	26.3	23.7	27.3	27.8	27.0	25.5	25.1	25.0	25.4	25.8	24.9	23.5	23.4	18.4	18.7	24.4
851	Footwear	3.9	3.3	3.9	4.4	4.3	3.8	3.5	3.4	2.9	2.6	2.2	2.0	1.7	0.9	1.0	1.1
864	Watches & Clocks	0.1	0.1	0.2	0.1	0.1	0.1	1.1	1.7	2.4	3.0	3.3	4.5	4.6	4.9	6.5	7.3
893	Articles of Artificial Plastic Materials	1.1	1.1	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.3	1.2	1.3	1.4	1.6
894	Perambulators, Toys, Games etc.	1.6	1.7	2.0	2.0	2.0	2.8	3.2	3.2	1.6	3.7	3.4	4.1	3.8	3.5	2.8	3.3
897	Jewellery					1.7	1.7	1.8	2.3	2.7	2.8	2.6	3.8	4.0	4.1	3.7	4.0
812	Sanitary, Plumbing etc. Fixtures					5.0	4.7	4.1	4.7	4.6	4.2	4.1	4.1	3.5	3.4	3.4	3.6
861	Scientific, Medical etc. Instruments					0.2	0.3	0.5	0.4	0.4	0.5	0.7	0.8	0.9	0.8	0.8	0.9
Others						18.7	17.3	17.0	17.3	18.9	16.2	15.9	13.9	12.2	12.3	12.8	12.8

Source: Calculated from the trade statistics of Hong Kong.



Table 4.9 Shares of Textiles and Clothing in Hong Kong  
Export of Manufactures to Selected Markets

Market	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
<u>United States</u>																
textiles	11.9	15.0	11.8	12.3	9.3	8.2	10.6	8.0	7.3	5.9	5.0	5.6	5.9	6.5	6.8	5.1
clothing	52.5	39.1	41.5	37.8	36.1	37.1	33.5	33.1	35.4	34.2	32.2	28.1	35.4	33.6	33.5	43.4
<u>United Kingdom</u>																
textiles	34.1	34.5	31.6	23.6	21.2	29.0	25.3	22.7	20.6	18.8	17.9	18.8	16.7	13.9	16.2	14.8
clothing	36.4	33.8	40.0	47.2	46.7	39.3	41.7	41.5	42.7	44.5	43.7	49.5	50.6	51.1	49.5	57.5
<u>EEC - Six</u>																
textiles	9.3	12.4	5.1	8.7	7.5	6.7	5.4	4.4	3.2	2.0	4.1	3.0	3.1	2.4	2.6	2.6
clothing	65.6	59.0	67.1	69.1	69.4	68.4	67.4	60.9	59.5	60.5	56.9	62.9	66.8	64.2	63.5	61.0
<u>Australia</u>																
textiles	35.9	36.4	41.5	44.1	47.5	47.0	44.6	43.4	39.4	36.7	34.6	34.0	32.1	39.6	28.5	29.1
clothing	21.4	15.6	12.7	14.5	13.5	14.4	16.2	18.6	19.5	19.6	20.2	24.0	26.5	24.1	32.7	30.4
<u>Canada</u>																
textiles	1.7	4.9	7.6	12.3	14.7	12.3	14.3	11.3	7.5	5.5	5.3	4.6	5.3	4.5	5.3	6.2
clothing	62.7	51.2	47.5	40.4	38.8	38.4	40.6	45.0	48.9	50.2	44.1	48.1	48.8	45.4	42.1	53.4
<u>Japan</u>																
textiles	9.3	4.4	2.2	1.1	2.7	1.3	2.9	1.0	1.7	1.6	9.2	4.6	4.7	18.6	3.4	3.5
clothing	27.8	4.4	6.1	7.6	5.8	7.4	6.2	11.0	22.7	23.2	32.0	39.3	31.1	33.0	42.4	34.0

Source: Calculated from the trade statistics of Hong Kong.



buted this to the difficulties encountered by textile producers in shifting into other products. For instance, the shifting from the production of cotton yarn and fabrics to synthetic yarn and fabrics will inevitably incur substantial re-investment on the part of the spinners and weavers as the machinery and equipment used in producing the cotton goods are unsuitable for synthetic products. In the garment sector, the serving machinery and equipment are still usable for the processing of synthetic products after minor modifications. In other words, product diversification is more feasible in the clothing sector.

Furthermore, the textile industry in Hong Kong is relatively more capital-intensive and centres on mass-production of comparatively homogeneous products which need a longer period of turnover. These cause the textile export become more difficult to cater for market requirements in the short run and vulnerable to world competition. On the other hand, the garment sector relies comparatively more on skilled and semi-skilled labour (for which Hong Kong has no lack of), and has a wider range of products to diversify. These enable the manufacturers to react to changing market conditions rapidly by switching between markets and products. In addition, clothing industry in Hong Kong has been moving in the direction of producing high-quality fashions which depends much on skilled labour and not so much as textile on the economy of scale. To sum up, the clothing industry is more feasible in coping with the changing demand conditions by improving the product quality and differentiating within a considerable range of products within a relatively shorter period of time. Thus, Hong Kong has been able to sustain a rather steady growth in her exports of garment despite of the quantitative restrictions prevailing in the trade of these products. Clothing is by far the leading item in the export



basket of Hong Kong dominating about half of her export sources. By the year 1971 Hong Kong has overtaken Japan as the largest supplier in clothing accounting for 23.3% of the total United States garment imports in 1975. In the British market, the share amounted to 32.6%. In the Federal Republic of Germany, Hong Kong has surpassed France as the second largest supplier (Italy being the first) occupying 13.8% of the country's clothing imports during the same year.<sup>10</sup>

From the quantum indices shown in Table 4.10, we can see how textile fabrics, textile made-ups and footwear have been affected by quantitative restrictions, especially the latter two whose quantum indices have shown a continuous downward trend in the recent years. In contrast with this, transistorized radios, electronics components, watches and clocks showed significant increases in quantity. These are relatively new industries which Hong Kong has diversified into over the past several years. And indeed, Hong Kong has the potential to keep heading towards this direction considering the ability of adjusting herself to changing conditions over the years.

Although being blurred by the recent trend of price inflation, we can still recognize the relatively faster increases in the unit value indices (as shown in Table 4.10) of those products which are being placed under quantitative control, showing that these goods have been shifting to products of higher processing and sophistication. It is conceived that watches and clocks industry has begun to move along this route since the mid-1970s.

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<sup>10</sup> Hong Kong Review of Overseas Trade 1975.



Table 4.10 Export Unit Value and Quantum Indices  
of Selected Manufactures, 1968-75

Commodities	1968	1969	1970	1971	1972	1973	1974	1975
Clothing								
V	100	108	114	121	129	156	192	188
Q	100	118	126	150	157	159	150	178
Textile Fabrics								
V	100	104	105	115	124	166	215	165
Q	100	105	118	116	122	139	123	130
Textile Yarn & Thread								
V	100	106	108	112	119	161	220	152
Q	100	123	149	159	180	293	250	224
Textile Made-ups etc.								
V	100	102	101	111	122	134	214	175
Q	100	97	104	110	98	80	65	67
Footwear								
V	100	109	119	129	137	155	187	180
Q	100	100	93	100	82	63	61	53
Transistorized Radios								
V	100	110	121	133	126	140	163	154
Q	100	131	138	163	222	249	245	256
Electronics Components								
V	100	81	88	91	84	81	70	101
Q	100	200	308	348	413	604	257	462
Watches & Clocks								
V	100	96	108	105	110	128	163	196
Q	100	165	183	243	268	335	455	480

Source: Hong Kong Review of Overseas Trade

V: Unit value index

Q: Quantum index



#### 4.6 SUMMARY

The success in tariff reduction over the past three decades had eliminated, to a large extent, tariff barriers but entailed increasing attention on nontariff measures as the major obstruction to international trade. As being stated by Patterson, "the lowering of tariffs has, in effect, been like draining a swamp. The lower water level has revealed all the snags and stumps of non-tariff barriers that still have to be cleared away ....".<sup>11</sup> Nontariff barriers take a variety of forms, but the most important and readily identified one is import quota.

Hong Kong had the experience of quota restrictions for nearly twenty years dating back to the late 1950s, when a Hong Kong — United Kingdom agreement on the restriction of Hong Kong's cotton textile exports to the British market was reached. Later, on basis of the GATT Long-Term Arrangement, Hong Kong entered into various bilateral agreements with all her major textiles buyers. And now virtually all her textile and clothing exports are under restraint.

The effect of import quotas on textiles can be readily recognized by the drastic decline in export importance of this industry. However, clothing has hardly been affected owing to its capability of moving into the production of more sophisticated goods and differentiating within a considerable range of products. Meanwhile, in an attempt to alleviate the overall effect of quantitative restrictions on her exports, Hong Kong tends to diversify her export basket into new product lines such as electrical machinery, toys, watches and clocks.

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<sup>11</sup> See Gardner Patterson, Discrimination in International Trade, The Policy Issues, 1945-1965, (Princeton University Press, 1966). .



In addition to the recession, the unsatisfactory performance against quotas in the recent years was due to finer categorization of items under restraint which resulted in large amount of unused quotas in some categories. Further, the move towards a more even burden-sharing among the EEC member states regarding import quotas also limits the maximization of quota utilization as certain markets such as France and Italy do not open up as fast as Hong Kong would wish. Nevertheless, there is still considerable room for Hong Kong exports to achieve further expansion provided that local manufacturers are flexible enough to be alert to cope with market conditions and remain competitive. But the real danger is the growing tendency of some countries to substitute the Voluntary Restraint schemes with unilateral Global Quota schemes.



## Chapter 5 TRADE PROMOTION

With practically no natural resources to speak of, the Hong Kong economy relies to a great extent on its export earnings: nearly 90% of Hong Kong's products are sold beyond her frontiers. Indeed, it is due to the dependence on exports and keen competition in the world market that Hong Kong has to pay special attention to sales promotion abroad. Circumscribed by her size and special economic environment, a significant portion of Hong Kong's export is confined to a limited range of labour-intensive manufactures. But in order to take advantage of concrete trade opportunities and be responsive to market conditions, constant changes within this range are necessary if sustained growth for export trade is needed. Hence, Hong Kong has to suit her products to market requirements on the one hand, and make them known to potential clients on the other. In fact, Hong Kong spares no effort to undertake whatever can help to maintain present markets and create new ones. Needless to say, her well-developed transportation, communication and financial structures facilitate the implementation of this work very much.

This Chapter attempts to give a delineation of the trade, promotion techniques that Hong Kong employed, and summarizes the work done over the years. Although the history of trade promotion undertaken by Hong Kong could be traced back to the early 1950s, it was not systematic and in a significant scale until the establishment of the Hong Kong Trade Development Council in 1966. Before the appearance of the Trade Development Council, trade promotional work was chiefly carried out separately by private organizations under the direction of the Department of Commerce and Industry. When the Council came into existence, it took full responsibility for the



implementation of this work.

#### 5.1 TRADE PROMOTION UNDERTAKEN BY HONG KONG BEFORE 1966

The need for trade promotion was not aware until 1952 when the Government laid the cornerstone to this work by setting up a Promotion Office under the Economic Division of the Department of Commerce and Industry. But progress made by the Office during its first year of existence was limited due to the work burden caused by a considerable range of trade matters. In view of the vital necessity of specialization and to solve difficulties arising from expanding activities, the Department was reorganized in 1953. It was due to this reorganization that gave rise to four independent divisions, one of which was the Trade Development Division with trade promotion as its main concern. Under the advice of the Trade And Industry Advisory Board,<sup>1</sup> trade promotional activities undertaken by the Division usually concentrated on the participation of a trade fair or sending out a trade mission in each spring and autumn. From 1955 to 1965, the Department had organized activities in six continents embracing 26 trade fairs and displays while trade missions had a coverage of 40 countries which comprised the main outlets of Hong Kong's exports. The Department's overseas offices in London, Sydney and Brussels also provided the machinery for the promotion of foreign trade. Nevertheless, promotional work was not carried out to a significant

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<sup>1</sup> The Board, appointed on 1 January, 1959 to replace the Trade And Industry Advisory Committee, is composed of nine members chaired by the Director of the Department of Commerce and Industry. Its terms of reference is: 'To advise the Director of the Department of Commerce and Industry on all matters other than labour which affect Hong Kong's trade and industry'. 1959/60 Annual Report of the Department of Commerce and Industry, (Hong Kong, 1960), p. 13.



scale until the existence of the Hong Kong Trade Development Council.

The success of trade promotion depends upon the combined efforts of the government and the private sector. For the government having paved the way for a favourable business climate, it was the private businessman's concern to promote the specific product he intended to sell. In fact, the private businessman should be more concerned in trade promotion than anybody else, because he stood to benefit from it.

Before the Hong Kong Government was urged to launch promotional activities, initial steps had been taken by the Chinese Manufacturers' Association and the Hong Kong General Chamber of Commerce, both of which had representational status in the industrial and commercial community in Hong Kong. The Chinese Manufacturers' Association was the pioneer in promotional work as it initiated Hong Kong's first venture into international fairs by participating in the first postwar British Industries Fair (1948). It also organized sales promotion tours for its members in South East Asia, Australia and the United States. Notwithstanding the improvement attained by the Association on the prestige value of Hong Kong products abroad, to arouse local interest in domestic products seemed also to be its major concern as a great deal of its energy was employed in mounting an annual exhibition of Hong Kong products locally.

The Hong Kong General Chamber of Commerce embarked on trade promotional activities ever since its Secretary attended an E.C.A.F.E. Trade Promotion Conference in Singapore 1951. In addition, representatives of the Chamber had attended a large number of such meetings and those concerned with international trade. Organized by the Chamber in 1954, Hong Kong participated in the Washington State International Trade Fair in Seattle which was her first venture in a trade fair outside the United



Kingdom. In 1956, 1957, 1959 and 1960, Hong Kong had official displays at several European Fairs. In each case, the Chamber played an important role by providing a leader or other members for the delegation from its General Committee or permanent staff. Apart from this, in conjunction with a British company it helped in the preparation of a television film 'Hong Kong Today' and in the production of several pamphlets 'The Pattern of Trade', 'A Comparison of People', 'The First Half' and 'Hong Kong and its Textile Industry' (which was produced during the negotiations with the Cotton Advisory Board<sup>2</sup> in 1958). All these endeavoured to reflect the economic and non-economic aspects of Hong Kong.

The Information Services Department and the Tourist Association (semi-governmental) functioned in a subsidiary capacity to help generate promotional activities. The services that the Department rendered included the preparation and channelization of publicity material, design of display features, and provision of film and photographic services. Regardless of being a service organization, proposals furnished by the Department in regarding promotion work were often brought under discussion with other agencies engaged in this field.

The Tourist Association had its main task on the promotion of Hong Kong's tourist trade which had long been a great source of income to Hong Kong. The Association made effort to create a favourable image of Hong Kong as a vacation resort, and sought to improve facilities for visitors.

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<sup>2</sup> The Board was appointed on 21 July, 1961 comprising 12 unofficial members under the chairmanship of the Director of the Department of Commerce and Industry with the following terms of reference: 'Arising out of the exceptional issues which the cotton industry in Hong Kong faces, to advise Government on any matter which directly affects the cotton industry in Hong Kong'. 1961/62 Annual Report of the Department of Commerce and Industry, (Hong Kong, 1962), p. 12.



It maintained close co-ordination for the activities of those engaged in the tourist trade. Co-operations with the Department of Commerce and Industry and the Information Services Department to participate in selected trade and travel fairs and exhibitions were quite often. Through a local airline, it maintained a network of representation in several cities in Australia, Britian, and United States and Japan.

Before 1962, private agencies depended on their own resources in undertaking promotional programmes. Since the Commercial Public Relations Co-ordinating Committee came into being that year, expenses for this purpose were met by annual subventions equivalent to one half of the estimated annual yield from stamp duties paid by merchants and manufacturers on export and import declarations, in addition to a small contribution from general revenue.<sup>3</sup>

## 5.2 SHORTCOMINGS UNDERLYING THIS ORGANIZATIONAL FRAMEWORK

The Committee which was appointed for an experimental period of two years, having the Hong Kong General Chamber of Commerce and the Federation of Hong Kong Industries<sup>4</sup> represented in the private sector, was composed of the chairmen and executive heads of the agencies in the trade promotion field receiving public funds under the chairmanship of the Director of

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<sup>3</sup> The stamp duty was doubled specifically for this purpose in 1962. The original imposition was one dollar per declaration in order to cover the cost of Government statistical services; and the extra dollar was for the above said purpose.

<sup>4</sup> The Federation was established in June, 1960 aiming at the providing of a central organization to act and speak on behalf of all manufacturing interests in Hong Kong. Federation of Hong Kong Industries Annual Report, 1960.



Commerce and Industry Department. It maintained several representatives in Europe, the United States and East Africa. Its task was to ensure that the public funds at its disposal for programmes submitted by its member agencies were properly used. Although the Committee served to co-ordinate and had the right to be informed of the projects undertaken separately by the various agencies, it had no authority to amend the programmes. It could only hope to suggest amendment in case of conflict. Doubtlessly, duplication of effort, hence a waste of resources, was inevitable if compromise between the programmes drawn up by the various agencies could not be attained. Furthermore, misunderstanding and overlapping of purpose in connexion with the whole range of trade promotional activities between overseas representatives of the agencies very often gave rise to conflicts which caused confusion in the mind of the public both in Hong Kong and overseas.

Another shortcoming stemmed from the difficulties in co-ordination between the Chinese Manufacturers' Association and other agencies in regarding promotional activities as the Association did not participate in the Committee, because it found no financial support from the Committee for this purpose. Moreover, separate performance of the agencies in carrying out their programmes led to the fragmentation of the small cadre of experienced staff.

The Committee, after a period of two years, admitted the difficulties it encountered in undertaking its task under the existing organizational structure in its report in September, 1964 which pointed out——

'Early on we became acutely aware that "commercial public relation" is at best a vague, and at worst a controversial, term and our discussions have been beset by difficulties of definition. In practice this has meant that we have found it difficult to effect



co-ordination in the fullest sense, let alone ex post facto evaluation; as a committee we tended to confine ourselves to exchange of information and to try to agree on a suitable definition. But we could not.....<sup>5</sup>

Hence, it recommended that certain procedural changes and alterations in the Committee's terms of reference had to be made if a greater measure of co-ordination was hoped.

Recognizing the weaknesses prevailing in the existing framework, it was conceived that a centralized organization in which representatives of all agencies interested in trade promotion would pool their available resources together in undertaking one single co-ordinated programme was urgently needed. Hence a Working Committee with the majority of whose members coming from the Commercial Public Relations Co-ordinating Committee was appointed on 25 March, 1965 with the following terms of reference<sup>6</sup> —

- (1) to view the present organizational structure for trade promotion in the broadest sense with a view to assessing its flexibility and effectiveness and the need for new measures particularly to avoid duplication of effort;
- (2) to examine methods employed by other countries to promote trade and to suggest what lessons for Hong Kong may be learned from them;
- (3) to recommend and report by 1st January, 1966 whether a new institutional framework is desirable or essential to provide central direction and conduct of Hong Kong's export promotion programme on a continuing basis and, if so, to suggest its composition, functions, powers and legislative and financial framework.

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<sup>5</sup> Report of the Working Committee on Export Promotion Organization 1965, p. 5.

<sup>6</sup> Report of the Working Committee on Export Promotion Organization 1965, INTRODUCTION, p. v.



### 5.3 THE ORGANIZATION AND FUNCTIONS OF THE TRADE DEVELOPMENT COUNCIL

Based on the recommendations of the report submitted by the Working Committee, the Hong Kong Trade Development Council (TDC) came into existence as a statutory body in September, 1966.<sup>7</sup> It is a quasi-independent body with the primary duty of designing a single programme which replaces the separate programmes of the existing agencies on export promotion matters. The legislation incorporating the council contains a statement of the council's purpose, fields of activity and tasks on the following lines:<sup>8</sup>

to assist the development of Hong Kong's overseas trade through:

(1) promotion of Hong Kong exports by——

- a/ organizing and financing, and assisting with the organization and financing of, such activities as may seem to the council beneficial to the export trade of Hong Kong as a whole;
- b/ establishing means of contact between overseas buyers and local exporters and manufacturers; and
- c/ distributing publicity material about Hong Kong products; and

(2) creation of a favourable image of Hong Kong as a trading partner and manufacturing centre by——

- a/ disseminating general information on Hong Kong's economy and, in consultation with the Government, encouraging an understanding of its particular problems;
- b/ advising the Information Services Department of the need for the

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<sup>7</sup> The Commercial Public Relations Co-ordinating Committee was allowed to dissolve on the TDC's inception.

<sup>8</sup> Report of the Working Committee on Export Promotion Organization 1965.



provision of information material on matters of general Government policy in cases where misunderstanding or lack of information may be damaging to the favourable image.

Chaired by an independent figure of high standing in the commercial and industrial community in Hong Kong, the council itself is a policy making body comprising fourteen members. Seven of them are ex official members composed of the chairmen or executive heads of the Hong Kong General Chamber of Commerce, the Federation of Hong Kong Industries, the Chinese Manufacturers' Association, the Hong Kong Tourist Association, the Exchange Bank Association, the Department of Commerce and Industry and the Information Services Department. Three other members are one each nominated by the Hong Kong General Chamber of Commerce, Federation of Hong Kong Industries, and Chinese Manufacturers' Association. The rest four are appointed by the Hong Kong Governor. A vice-chairman is elected by, and from, the Council. The chairman is regarded additional to the fourteen members and has a vote only in case of deadlock.

On the other hand, headed by an Executive Director, the day-to-day work of the TDC is carried out by a secretariat serviced by the staff previously engaged in trade promotion work in the Department of Commerce and Industry including that of the Sydney Office and part of that of the London Office, together with the staff of the local and overseas offices formerly under the auspices of the Public Relations Co-ordinating Committee. The Executive Director is responsible for the forward planning and execution of trade promotion projects, and the establishment of overseas representation. On the TDC's creation, there were five overseas offices stationed in London, Sydney, New York, Brussels and Nairobi. The Head Office in Hong Kong composes of five departments: Design, Publicity Services, Trade



Services, Administration, and Accounts. Pay-listed staff in March 1976 amounted to 290, of which 93 were placed in the overseas offices.<sup>9</sup> According to the Council's 1975/76 report, the organization structure of TDC is shown as the chart on the following page. The Council is financed by subvention derived from the levy on declarations of imports, exports and re-exports with a deduction of approximately HK\$1 million representing the original duty introduced to cover the cost of Government statistical services. The ad valorem rate is 50¢ per \$1,000 or part thereof, with a minimum charge of \$2 a declaration.<sup>10</sup>

In addition to Government subvention, other sources of income include those from the advertisements on, and sales of publications issued by the Council, interests received on bank deposits etc. The annual income grew at increasing rates from HK\$12 million in 1966/67 to HK\$35 million in 1975/76, except that the growth rate in 1975/76 diminished from 16% in the previous year to 7% due to the decline in trade caused by the world-wide economic recession. However, it was of special necessity for the Council to intensify its promotional activities during these hard times so that Hong Kong might rapidly take full advantage from a subsequent economic revival. Hence, it was not surprising that contrary pattern was found in expenditure, for the growth rate of which had increased from 9% in 1974/75 to 14% in 1975/76.

On the other hand, during the period 1966-1976, the expenditure of

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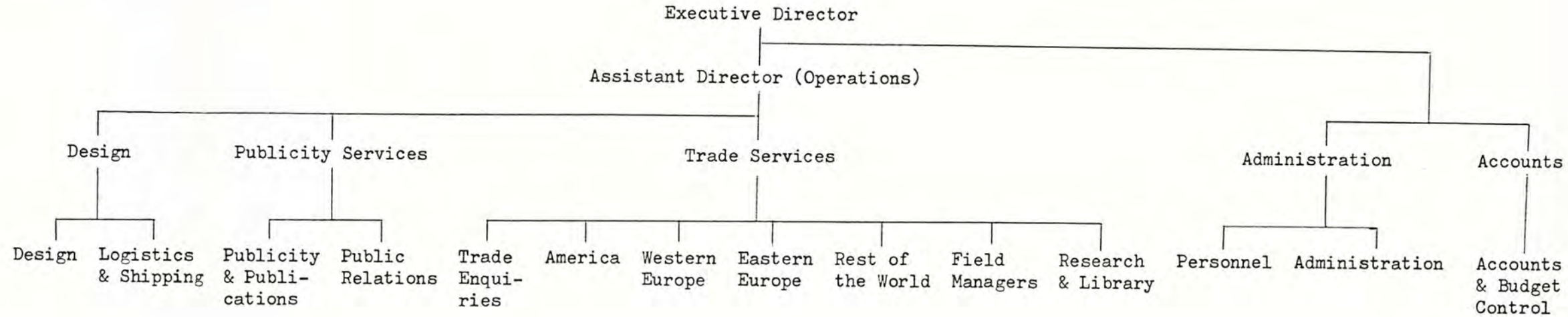
<sup>9</sup> Hong Kong Trade Development Council Annual Report 1975/76, (Hong Kong, 1976), p. 26.

<sup>10</sup> The subvention for the first year of the Council's existence was equivalent to 0.25% of the value of domestic export or some HK\$11.5 million on 1964-65 figures. Report of the Working Committee on Export Promotion Organization 1965, p. 32.

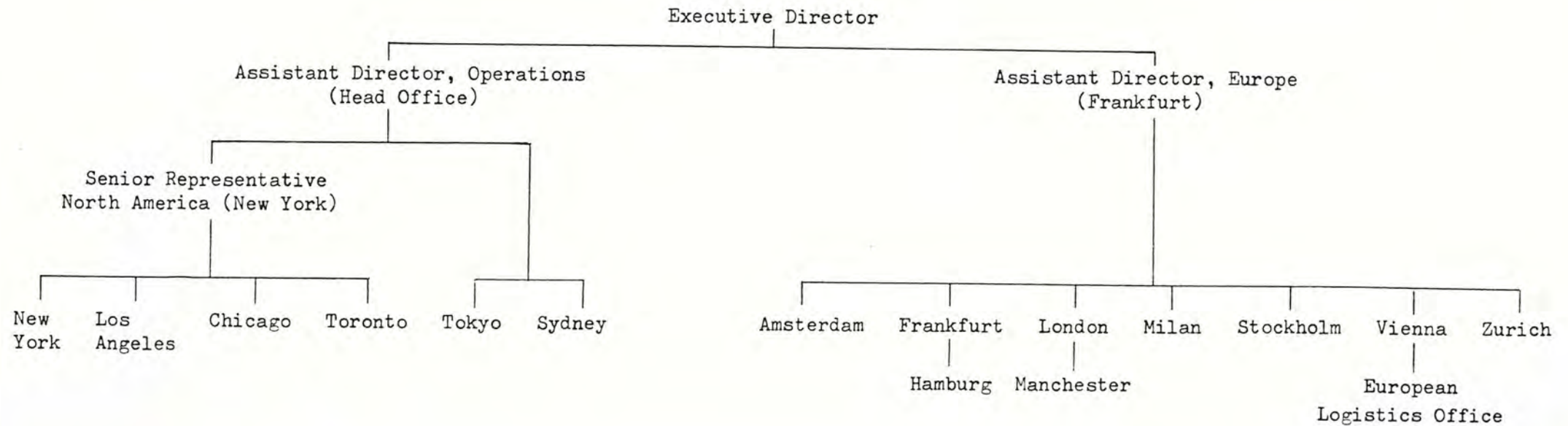


# The Organization Structure of TDC

## Head Office



## Overseas Offices





TDC had increased from HK\$8 million to HK\$35 million. Of all the outlays, staff costs occupied the largest share, accounting for about 40% of the total expenditure. Those apportioned for the purpose of trade fairs, missions and exhibitions took another one third. Overall administrative costs remained in the region of 10%.<sup>11</sup>

#### 5.4 TRADE PROMOTION TECHNIQUES

As emphasized in its terms of reference, the Council does not confine itself to the task of exploring outlets for current products. It also seeks to induce foreign investment on Hong Kong's industries. Thus, it is conceived that the scheme implemented by the Council should be a comprehensive one. In the Council's concerns of promoting, assisting and developing Hong Kong's export trade, its functions fall under the following broad heads:

- (1) to provide trade information both for and about Hong Kong,
- (2) to sponsor the sending from Hong Kong, and reception from abroad, of trade missions for the promotion of exports,
- (3) to organize Hong Kong's participation in trade exhibitions held locally and abroad.

##### 5.4.1 Trade Information

Foreign trade promotion relies to a great extent on the availability of data and information on markets. Hence, a pool of accurate trade information is considered an important pre-requisite for a successful trade expansion programme. The purpose of trade information terminates, in the

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<sup>11</sup> All figures and percentages are cited and calculated from the annual reports of TDC. The percentage for administrative costs is only an approximation estimated by the Council.



broadest sense, in two ends which aim to provide local manufacturers and exporters with market intelligence on the one hand, and to introduce local products to overseas on the other. While the former makes effort to enable local suppliers to improve the marketability of their products, the latter seeks to acquaint the importers of those countries with the goods available in Hong Kong. Thus, both of them complement each other in pursuing the target of export expansion.

Publication, film and photograph, and press are often used for publicity purposes. Among them, publication is usually the initial step.

Trade publicity in Hong Kong comprises:

- a/ Regular publications to inform foreign businessmen of Hong Kong industries and products, trade legislation and a variety of matters on economic and non-economic aspects, as well as to provide local business people information about market conditions, trade policies and practices prevailing abroad. (e.g. the Trade Bulletin)
- b/ Regular publications containing details of specific products with relevant suppliers to inform overseas customers about the characteristics and recent developments of these products. (e.g. the Hong Kong Apparel and the Hong Kong Toys)
- c/ Regular and occasional publications to inform visiting business people and those abroad about the investment potential in Hong Kong. (e.g. the Commerce, Industry And Finance Directory, the Industrial Investment Hong Kong and the Joint Venture Hong Kong etc.)
- d/ Attractive literature produced for use at Hong Kong exhibitions in trade fairs. It is usually issued in format of pamphlets or brochures with colourful pictures featuring a considerable range of products available in Hong Kong.



The Department of Commerce and Industry was charged with the work of trade information dissemination in the early 1950s until the mid-1960s it was taken over by the trade Development Council as an executive organ for this purpose with collaboration from the Information Services Department.

Concomitant with the existence of the Trade Promotion Office, in 1952, a monthly publication called the Trade Enquiries Bulletin which was later adopted a new lay-out to change the name to the Trade Bulletin in 1953 was issued with a circulation of approximately 1,400 copies recorded at end of March, 1953.<sup>12</sup> The Bulletin contained up-to-date information on local industries and products, trade statistics, various aspects of industrial development, trade legislation affecting Hong Kong and other general trade matters. Its main objective was to introduce new products to overseas buyers and to publicize Hong Kong's established industries. Copies sold locally also contained a supplement giving details of trade enquiries received from overseas. In 1961/62, over 1,300 enquiries were published in the Bulletin.<sup>13</sup>

In April 1955, the annual Commerce, Industry and Finance Directory was issued having an initial circulation of approximately 17,000 copies, with the majority of which distributed to overseas inquiries.<sup>14</sup> The Directory provided a considerable range of information constituting crucial factors for decision making in investment in Hong Kong and main-

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<sup>12</sup> 1952/53 Annual Report of the Department of Commerce and Industry, p. 13.

<sup>13</sup> 1961/62 Annual Report of the Department of Commerce and Industry, p. 36.

<sup>14</sup> 1955/56 Annual Report of the Department of Commerce and Industry, p. 13.



tained a brief description on measures adopted by other countries which may affect Hong Kong's trade. Both the Bulletin and Directory were available free on overseas requests but a small subscription was charged on local demand. The two issues and other promotional publications which might be issued on requirement were produced by the Trade Publications Section with the consultation of the Trade And Industry Advisory Board.

In addition to the two regular publications, other occasional issues like Hong Kong for the Businessman, Joint venture Hong Kong, Opportunity Hong Kong, Display Centre of Hong Kong Products, A Short Guide to Hong Kong etc. were published by the Information Services Department during the early 1960s. Many of these issues were distributed to visiting businessmen and at trade fairs. But most of them were sent overseas to consulates, shipping companies, airlines, trade and travel associations etc. During the year 1962, about 12,000 copies of Hong Kong for the Businessman along with colour pamphlets featuring some of Hong Kong's products and industries were sent to these agencies.<sup>15</sup> By the year 1971, this issue was reprinted in English, German, Japanese and Italian, of which 13,500 copies in English and 16,000 in other languages were ordered for distribution through overseas offices and at trade fairs.<sup>16</sup> By the year 1969/70, nearly half a million copies of these trade magazines, brochures, product pamphlets and booklets were issued. The increasing circulation of these publications over the years along with responding enquires indicated the productive effect of this work.

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<sup>15</sup> 1962/63 Annual Report of the Department of Commerce and Industry, p. 35.

<sup>16</sup> TDC Annual Report 1971/72, (Hong Kong, 1972).



This work was expanded when the TDC took over the responsibility for the production and dissemination of publicity material. The Trade Bulletin which was originally issued by the Department of Commerce and Industry and unchanged in format when transferred to the TDC was superseded in October, 1967 by the Hong Kong Enterprise. This publication was later adopted with Japanese, French and German inserts for copies circulated in the respective countries. And in order to intensify visual commercial publicity, the Hong Kong Apparel and the Hong Kong Toys were issued in 1969 particularly for the creation of more direct interest in Hong Kong-made garments and toys. To attract foreign direct investment and promote joint ventures, the Industrial Investment Hong Kong was produced in conjunction with the Department of Commerce and Industry in 1971. In addition, a twenty-minute colour film in English, German and Japanese was prepared in this field.

Another facet of general information work is the distribution of departmental press releases. A special Press Section was set up by the TDC during the year 1967/68. It provides a comprehensive press service by supplying features and photos to many interested recipients local and abroad through the Council's overseas offices. To enhance promotion through print, the Overseas Press Service was founded in February, 1970 responsible for supplying material about Hong Kong and the Council's activities to offices abroad for placing in overseas press and trade journals. During the year 1971/72, more than 3,000 overseas press cuttings originated by the TDC were returned to the Press Section (about twice the year before).<sup>17</sup> By the year 1974/75, approximately 7,000 press

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<sup>17</sup> Ibid.



cuttings of TDC-originated releases were returned from overseas offices since the commencement of the Press Section, and over a million copies of trade publications were circulated.<sup>18</sup>

By the way, the handling of trade enquiries both from local and overseas businessmen constitutes a significant portion of the TDC's routine administration. The enquiries are from overseas importers interested in doing business with Hong Kong and from local business people seeking export outlets. But the majority of them were received directly from overseas and through offices stationed abroad. During the year 1967/68, 20,386 enquiries were processed.<sup>19</sup> With the expansion of overseas offices and their activities, enquiries received through them have increased quite substantially and there has been a downward shift in the number of enquiries received directly from abroad. On the other hand, the Head Office in Hong Kong has started building up a data bank of trade information since 1967. Market surveys were conducted for the guidance of trade fair participations and trade missions. Local businessmen were given assistance before they departed for selling trips abroad. Arrangements were often made for overseas visitors on business missions prior to their visits to Hong Kong.

Experience has showed that offices stationed abroad are effective channels for information dissemination. The number of overseas offices has increased to a significant scale during the past decade. At the time it took over from the Department of Commerce and Industry, the TDC had only five overseas offices (in London, Sydney, Brussels, New York and

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<sup>18</sup> TDC Annual Report 1974-75, p. 18-19.

<sup>19</sup> TDC Annual Report 1968-69, p. 15.



Nairobi.<sup>20</sup> Since then trade attaches were posted in important commercial cities abroad each with the responsibility to promote trade in a certain country or region.

In 1960, the London Office was the only representative of the Hong Kong Government overseas with the promotion of trade between Hong Kong and the European countries as one of its concerns. It has been expanded continuously with expanding activities and growing staff. Window displays featuring Hong Kong's achievements were held regularly and in some cases special groups of Hong Kong products were put on exhibition by the Office. By the year 1969, due to the reorganization of overseas representation, it became the headquarter of the European offices and played important role in trade negotiations between Hong Kong and the European countries. In 1964, it had assisted in settling the adverse publicity aroused in Britain in complaining against the sub-standards of flame proofing of children's nightwear and the lead content of plastic toys.

The Sydney Office was established on 1 December, 1960. During its inception, the Trade Representative spent most of his time in paying visits to key cities of Australia and having meetings with Australian businessmen and Government officials. The most important project undertaken by the Office during its first year of existence was the organization of Hong Kong's participation in the Sydney International Trade Fair in August, 1961. The Fair was considered a successful one having 264 enquiries covering 501 items.

On 1 June, 1965, the Brussels Office came to exist which was planned to handle trade matters between Hong Kong and the EEC countries. But in

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<sup>20</sup> The Office, being responsible for the promotion of Hong Kong's trade in Kenya, Uganda, Tanzania and Zambia, was allowed to run down in August, 1971.



1969, it was scaled down to cover the Benelux countries only.

In February, 1970, the Frankfurt Office was opened to serve the Federal Republic of Germany. And seven other Offices including Vienna, Chicago, Los Angeles, were set up between 1970 and 1971. Hence by the year 1975, there were fifteen offices and subsidiary offices stationed in cities of almost all countries in the world which have substantial trade with Hong Kong. They were: London, Sydney, New York, Stockholm, Frankfurt, Vienna, Chicago, Los Angeles, Tokyo, Toronto, Milan, Amsterdam, Manchester, Hamburg and Zurich.

These Offices devoted most of their time to the promotion of trade between Hong Kong and the respective countries in which they were stationed. Their activities include the furnishing of statistical information both for and about Hong Kong, supplying of up-to-date material about Hong Kong to interested recipients, organization of Hong Kong's participation in trade fairs, offering of assistance to business people who intend to visit Hong Kong and providing of co-ordination for discussions on joint venture. In addition, they also provide the machinery for settlement of trade disputes that may arise between the contracting parties before the complaints were referred to formal commercial arbitration or legal action. They furnish the home office with periodical and special reports on the economic, financial and commercial conditions prevailing abroad. Market surveys conducted by them were usually undertaken by firms of market research consultants sited at the appropriate markets. The Trade Representatives were always in close liaison with business people and government officials of the countries in which they were posted in order to maintain alertness on any change in trade policies and business practices adopted by these countries which might affect Hong Kong's trade and



initiate counter action in appropriate cases. Talks on Hong Kong were often given by them at public meetings and in some cases aided by film shows or colour slides.

Though market exploration appears to be the main function of the overseas offices, the discovering of markets for particular products does not necessary mean access to those markets for Hong Kong exporters. For barriers such as preferences, quantity control, labelling and packaging problems etc. may exist. These restrictions have to be examined and overcome before entry of the relevant products to those markets is achieved irrespective of product suitability, price and delivery considerations. The restrictions may be abolished or reduced to a certain extent by the attaining of Bilateral Trade Agreements through negotiations. The overseas offices usually participate in those trade talks under the direction of the Department of Commerce and Industry. However, they only assist in a subsidiary capacity in handling these matters, for questions related to trade relations problems are to be decided in the last resort by the Government.

#### 5.4.2 Trade Exhibitions

International trade fairs and exhibitions are recognized media for the development of trade and commerce between nations. They provide opportunities for the publicity of products and on-the-spot sales of goods and receiving of orders. Through such displays, participants are able to demonstrate a vast range of products to a large number of potential buyers as well as to introduce their new products and appoint agents.

The initiation of Hong Kong's participation in overseas trade fairs could be traced back to the exhibit at the first postwar British Industries



Fair which was participated by the Chinese Manufacturers' Association in 1948. The Association continued to take a leading part in participating these fairs until 1953 the Hong Kong General Chamber of Commerce took its place by acting an important role in organizing and providing members of the delegation in respect of these activities. In 1954, the Chamber organized Hong Kong's first venture at a trade fair outside the United Kingdom by organizing Hong Kong's participation in the Washington State International Trade Fair in Seattle. Following the success of the visit to Seattle, Hong Kong continued to take part in fairs there in 1956, 1957 and 1960.

This work was enhanced by the TDC when it came into being in 1966 and became the executive organ for the organization of manufacturers to take part in world fairs and trade exhibitions. As can be seen from the table Hong Kong had 26 trade fairs and displays during the period 1955 to 1965. But from 1966 to 1975, the TDC had organized activities in 159 trade fairs, exhibitions and store promotions in almost every country in the world which were important buyers of Hong Kong products. These exhibitions were of various types depending on the market and products involved. Nevertheless, they can be classified into three major categories:

- a/ "Horizontal" shows <sup>21</sup> — These are of the most general type in which a wide range of products is exhibited and they are usually directed at the consumer public.
- b/ "Vertical" Shows — These are specialized fairs at which an industry or a group of related industries exhibit. They are usually "trade" oriented, hence direct sales seldom take place. These include

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<sup>21</sup> This terminology was used in Manual for Export Promotion, (GATT, 1964).



certain International Toy, Fashion Fairs and Electronic, Jewellery Shows etc.

c/ "Store Promotions" — They are planned in co-operation with retail stores aiming at the promotion of direct sales and the popularization of a special group of products. Sometimes the displays are devoted entirely to Hong Kong products as 'Hong Kong Week' etc.

The participation of the Nuremberg International Toy Fair in February, 1968 was the initiative step taken by the TDC to realize its plan of participating in more international specialized trade fairs particularly in Western Europe. Since then, Hong Kong has taken part in more than 60 (from 1968 to 1975 a total of 67 ventures) specialized trade exhibitions <sup>24</sup> of which were fashion fairs and displays. Toy fairs amounted to 17 times. The EEC countries, the United States and the United Kingdom were always the busiest places for these activities. Store promotions undertaken during the period were concentrated in big cities of the United States and the United Kingdom. Among them, 8 projects were carried out in co-operation with prominent department stores of the United States and 4 were undertaken in key cities of Britain.

On the other hand, recognizing the market potential of Eastern Europe, a number of pilot projects have been started since the 1970s in International Trade Fairs held there. Hong Kong started her first venture at international trade fairs held in the Eastern Europe by participating in the Leipzig International Autumn Fair in East Germany 1971. Later in the years, Hong Kong has made her mark at trade fairs held in Yugoslavia, Czechoslovakia, Poland and Hungary, including those arranged exclusively for Hong Kong products. From 1971 to 1975 Hong Kong had 31 exhibitions in trade fairs held in the Eastern European countries 10 of which were in



East Germany.<sup>22</sup> All of them were "horizontal" shows with an aim to introduce a wide range of products to those countries.

In order to arouse publicity and promote a favourable image of Hong Kong goods, informative publications in formats of pamphlet, brochure and booklet were distributed to Hong Kong exhibitions in trade fairs. The material was usually colourful and written in the appropriate foreign languages. In addition, photographs and radio broadcasts were also utilized for this purpose. For instance, a short radio programme in German prepared by the Radio Hong Kong was broadcast at the Hong Kong exhibition in the Vienna International Trade Fair held in May, 1959. Sometimes, exhibitions were followed up immediately by appropriate trade missions in order to see that no opportunity of trade was allowed to flash away.

While trade promotional work in overseas has been proceeding vigorously with productive effect, its counterpart undertaken locally under the leadership of the Chinese Manufacturers' Association seemed not to be a successful one. The Association has, for long, used most of its energies in mounting a campaign with 'Buy Local' as the theme. Under its organization, exhibitions<sup>23</sup> of Hong Kong were held annually aiming to arouse local interest in domestic products. However, the progress that this activity made was quite disappointing and the Exhibition was finally brought to a halt after its 31st venture in 1973/74. On the face of it, it seemed to be the lacking of permanent site that gave rise to the ending of the

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<sup>22</sup> All figures of Hong Kong's participation in international trade fairs and exhibitions are compiled from the annual reports of the Department of Commerce and Industry, and TDC.

<sup>23</sup> The Exhibition was started in 1938.



Exhibition. In fact, it was the lack of real interest on the part of manufacturers in participation which was responsible for its failure. For being afraid of their 'trade secrets' might be revealed to competitors, many of the participants abstained from showing their best. They would rather participate in activities which are export-oriented.

The most attractive exhibition held locally for the purpose of export promotion was the Hong Kong Ready-to-Wear Festival which attracted hundreds of overseas buyers each year. The Festival, usually held in March, was initiated in October, 1967 by the Federation of Hong Kong Industries with funds provided by the TDC. And in March, 1970 it was the first time sponsored by the TDC who took over the responsibility for the Festival from the Federation of Hong Kong Industries. This venture was participated by 108 Hong Kong firms and attended by 798 overseas buyers and local representatives of overseas buying offices and 26 press overseas representatives. Since then, the Festival was held as an annual affair under the aegis of the TDC.

By the way, as a mean to create in the mind of visiting business people an overall image of Hong Kong products during their short stays in Hong Kong, a 'Display Centre of Hong Kong' was opened in October, 1962 at the City Hall having exhibits provided by 560 firms. During its five months of commencement, 5,233 persons paid visit to the Centre and 2,707 enquiries about Hong Kong products were handled, including 1,157 from overseas visitors. In November 1963, a survey on the value of the Centre in regarding trade promotion was conducted by sending a questionnaire to the firms providing samples for display was conducted and the majority of them confirmed the value of the Centre. In July 1964, an exhibition of Hong Kong furniture and furnishings which would be later shown at the San



Francisco Trade Fair was held at the Centre as a means to stimulate local interest in overseas trade exhibitions. The Centre was later transferred as part of the TDC upon its creation.

On the other hand, the Chinese Manufacturers' Association also has its own display centre established in April, 1964 for the interest of its member firms. The goods featured in the centre aims to emphasize products of particular manufacturers.

#### 5.4.3. Trade Missions

Being a glamorous trading centre with locational convenience, Hong Kong has become the destination for many foreign trade missions. In fact, many overseas firms and independent agents have set up their buying offices here for a long time. Meanwhile, in order to expand current markets and create new ones, trade delegations consisting both of officials and representatives of the private sector were sent abroad from time to time, especially after the mid-1960s. From 1960 to 1975, over 60 trade missions were sent abroad with a coverage of four continents embracing almost every country which has substantial trade with Hong Kong. Most of them departed for the developed countries aiming at the maintenance and expansion of existing markets. They never forgo any chance of introducing Hong Kong as a good source of manufactures by distributing trade publications, product pamphlets and other relevant publicity material prepared by the Department of Commerce and Industry, the TDC, and in some cases the Information Services Department. These outgoing delegations each carrying its own specific missions with the promotion of Hong Kong exports as the last resort might be grouped under three main headings:

- a/ Reconnaissance missions<sup>24</sup> — to explore new markets for Hong Kong

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<sup>24</sup> Manual for Export Promotion, (GATT, 1964).



products abroad. The developing countries are usually their targets.

b/ Special missions — to encourage the expansion of existent markets.

Developed countries such as the United States, the United Kingdom and the EEC countries etc. are often chosen as their destinations.

c/ Study missions — to view other countries' production facilities and understand their business practices; to find solution for difficulties experienced by Hong Kong merchants in doing business with those countries.

As emphasized by its terms reference, it is one of the TDC's functions to identify Hong Kong as a favourable trading and manufacturing centre, hence to encourage joint venture between local and foreign manufacturies, it should provide facilities for visiting trade delegations even their prime purpose is to sell to Hong Kong. During the period between 1960 and 1970, the Department of Commerce and Industry and TDC had played host to nearly 100 visiting trade missions though a substantial portion of them aimed to establish Hong Kong as their markets.

It has been the TDC's desire to break down the 'wait and see' attitude of many Hong Kong firms and bring them into various markets by organizing outgoing trade missions. In executing these missions, representatives and products of participating firms are taken into overseas markets and talk face to face with potential buyers abroad on their own behalf. The actual business done during the short duration of the mission may be negligible, however it is more as a means to induce trade in the future than as an end to do business on the spot. Furthermore, in presenting their products in the actual markets, the representatives of Hong Kong firms are able to see firsthand the competition of goods offered by their rivals in catering for market requirements, which is valuable to them in deciding their future



sales and production policies. It is the recognition of these long-term benefits that the TDC also plays an educational role in the promotion of exports by persuading local firms to take part in its overseas missions. Reckoning from the effects yielded over the years, they have been quite productive.

## 5.5 SUMMARY

For an export-led economy to sustain its export growth, it must be always on the alert of market changes and let go no trade opportunity. The country must be flexible enough to produce what the market requires, and make its products known to the market. This falls within the domain of trade promotion. In this respect, Hong Kong has never lost sight of its importance. She had started to embark upon trade promotional operations since the 1950s. This work was further enhanced by the TDC which pooled all resources and efforts into one comprehensive programme including the collection and dissemination of information, organization of trade missions, participation of trade fairs and exhibitions.

Apart from these activities, the TDC should be aware of the adverse publicity rising from growing protectionism abroad. However, too much emphasis on export may arouse aversion in foreign countries. Hence, it should make people abroad familiar with the fact that Hong Kong is interested in trade, not export alone, and she always has faith in free trade. No matter how, Hong Kong is still a potential market for a considerable range of goods which may be of interest to her trade partners.



Table 5.1 Number of Hong Kong's Participation in International Trade Fairs, Exhibitions and Displays

(1955 — 1975)

Year Countries	1955	1956	1957	1959	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total
United States		1	1			1				1		1	3	1	2	1		3	5	4	3	27
Canada	1														1							2
United Kingdom	1								2		4	2	1	2	2	3	1	1	1			20
E.E.C. - six West Germany		1 (1)	1 (1)						2 (2)	1	1	1 (1)		4 (2)	6 (4)	4 (4)	7 (6)	8 (5)	11 (5)	14 (6)	17 (11)	78 (48)
Nordic Countries						1						1				1	1			2		6
Western Europe other than E.E.C. & U.K.					1							1		1		1			1			5
Eastern Europe																	1	3	7	7	13	31
Australia					1		1		1		1				2				1			7
Japan											1							1	2			4
Rest								1				2	1		1							5
TOTAL	2	2	2		2	2	1	1	5	2	7	8	5	8	14	10	10	16	28	27	33	185

Sources: Compiled from the annual reports of the Department of Commerce and Industry,  
and the Trade Development Council.



Table 5.2 Characteristics of Exhibitions  
(1955 — 1975)

Nature Countries	Horizontal Shows	Vertical* Shows	Store Promotions	Total
United States	5	14	8	27
Canada	1		1	2
United Kingdom	5	11	4	20
E.E.C. - six West Germany	31 (16)	46 (31)	1 (1)	78 (48)
Nordic Countries	5		1	6
Western Europe other than E.E.C. & U.K.	5			5
Eastern Europe	31			31
Australia	4		3	7
Japan	2	1	1	4
Rest	4	1		5
TOTAL	93	73	19	185
* Specialized exhibitions included 26 fashions, 17 toys and 30 others which were chiefly housewares, sports goods, electronics and jewellery etc.				

Sources: Compiled from the annual reports of the Department of Commerce and Industry, and the Trade Development Council.



Table 5.3 Countries Visited by Hong Kong's Outgoing Trade Missions  
(1960 — 1975)

Years Districts	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total
United States											1	1	2	2	1	2	9
Canada									1			1		1	1	1	5
United Kingdom									1			1		1			3
E.E.C. - six				1						2	1		2	2	1	1	10
Nordic Countries								1		1		1	1	1		1	6
Western Europe other than E.E.C. & U.K.								2		1						1	4
Eastern Europe														1	2	1	4
Australia		1									1		1		1	1	5
Japan											1	1	1	2	2	1	8
Africa	1					2						1		1	2	2	9
Middle East			1								1		1			4	7
Rest												1			2	1	4
Total	1	1	1	1		2		3	2	4	5	7	8	11	12	16	74

Sources: Compiled from the annual reports of the Department of Commerce and Industry,  
and the Trade Development Council.



Table 5.4 Number of Trade Enquiries Recorded  
(April 1960 — March 1976)

1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
1,600	1,700	1,700	20,386	45,629	50,648	50,000	over 50,000	53,962	55,644	59,758	69,632

— 1966/67 are approximate number of enquiries  
Trade Bulletin.

Department of Commerce and Industry, and  
Council.

Table 5.5 Hong Kong Display Centre\*

1962/63	1963/64	1964/65	1965/66	1967/68	1968/69	1969/70	1970/71	1971/72
5,233	8,131	9,271	8,300	25,080	121,804	133,720	141,863	143,136
2,707	7,601	10,808	10,000	7,229	15,118	14,453	10,570	11,926
1,157	3,753	5,550	5,000	3,621	8,258	8,613	6,156	6,472

s opened in October, 1962.

reports of the Department of Commerce and Industry, and  
ade Development Council.



Chapter 6 CONCLUDING REMARKS

Being a land-scarce economy with little natural resources, Hong Kong is highly trade dependent. Since her development as a sea port until 1950, she had served chiefly as an entrepot for South China trade. But her trade pattern had been greatly influenced by outside forces. The most important were the Chinese Civil War and the Korean War, which caused Hong Kong to embark on a new course of development by exporting locally-produced goods. This signified the commencement of Hong Kong's industrialization.<sup>1</sup> But this transformation did not change the outward-looking nature of Hong Kong's economy, for her industrialization had been led by export trade the pattern of which was, in turn, shaped by external factors.

Circumscribed by the nature of her economy, Hong Kong has no alternative but to employ intensively her gifted human resources to produce non-resource based light manufactures for export. And in order to perpetuate export growth, Hong Kong has to maintain her competitive position and be responsive to changing market conditions. On her path to development through an export-drive, she had come across a series of events, the most important ones to her export trade were tariff liberalization and quantitative controls (which ran in opposite directions) in the postwar era.

As far as tariff was concerned, the first impetus was provided by the Commonwealth Preference which, with a margin of nearly 20%, enabled Hong Kong to embark on industrialization early in the 1950s. With little

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<sup>1</sup> In fact, even if her entrepot trade had not been frustrated by these external factors, Hong Kong would not have been able to support the mass exodus from Mainland China by this traditional mode of existence.



competition and substantial cost differential, Hong Kong's exports were able to penetrate into the Commonwealth markets and achieved intensive growth, and seldom encountered resistance in the importing countries considering her small share in the vast market. Hence, led by textiles, Hong Kong was able to develop her own manufacturing industries. The process gathered its momentum in the 1960s when further stimulus was provided by progressive tariff liberalizations under GATT. Even though many developing countries were not satisfied with tariff cuts which concentrated chiefly on manufactures, Hong Kong, as a more advanced developing economy, was in a good position to reap the benefits from tariff reductions by rapidly expanding her manufactured exports. The Commonwealth Preference had been gradually diluted by successive tariff concessions; but unfavourable effects were outweighed by the advantages derived from the latter.

Thus, in respect of tariffs, there is no problem that Hong Kong had indeed benefited much from the trend of liberalization. On the other hand, the GSP schemes accorded by the advanced countries in the recent years may be a misgiving. For the schemes tend to bias against the more advanced developing countries, which imply a better chance for the less advanced ones to develop their export markets of certain manufactures which had in some time been dominated by Hong Kong. This will result in more severe competition, and, needless to say, will be unfavourable to Hong Kong as those less advanced developing countries have even lower labour cost.

At this time, tariff is so low that it no longer constitutes great obstacle to trade in manufactures. But the reduction of tariff tends to generate pressure for the erection of nontariff trade barriers as substitutes for tariff protection. Indeed, importing countries are more and more apt to resort to quantitative controls. Hence, it is the increasing



competition and proliferating use of these nontariff barriers that Hong Kong has to worry about in viewing her further export expansion.

Nontariff trade barriers vary a lot in their nature. Some of them are employed occasionally for special targets while some may be used steadfastly as part of the commercial policy. Nevertheless, they all, directly or indirectly, distort trade flows. In Hong Kong's concern, the most important are the quota restrictions on textiles, which, initiated by Britain in the late 1950s, has developed into a systematic and comprehensive scheme under GATT to regulate textile exports. Meanwhile, many of the nontariff measures tend to bias against the less developed countries. But being among the few of the more advanced economies in the developing world, Hong Kong has been better off than most of the others. As far as her "voluntary restraint programme" on textiles and clothing is concerned, her performance had been remarkably well in the 1960s. But later on, as these arrangements became more rigid and competition getting more intense, overall performance was not so satisfactory.

Although problems of international trade raised by nontariff trade barriers have become more pressing in recent years and it has always been the desire of the developing countries to have these measures eliminated, international agreements regarding most of them are difficult to reach. These measures are introduced primarily to meet domestic economic and social problems in the developed countries. Such agreements are likely to come across objection as they may limit a government's ability to tackle domestic problems. In addition, it is not easy to obtain the assurance of other governments' parallel action of implementing and enforcing the agreements when one government agrees to move towards reducing nontariff barriers. Furthermore, as the effects of nontariff barriers are not



readily identifiable and many of them cannot be approached in piecemeal fashion, unlike tariff, it is difficult to match and balance the concessions made by each country.<sup>2</sup>

In our study to assess the effect of quantitative controls on textiles, we find that they do have significant impact on Hong Kong's textile exports. Over the past fifteen years, this industry has undergone continuous deterioration in importance in Hong Kong's export basket. On the other hand, although clothing has also confronted with similar restrictions over the years, the picture is quite different. This is mainly because through quality improvement and product differentiation, the clothing industry has been able to adjust itself to the adverse situation, and it depends relatively more on skilled labour which Hong Kong has no lack of.

In regarding the trade pattern of Hong Kong, exports still find their major markets in the advanced countries where tariff liberalization has taken place and tremendous demand been created by economic expansion in these countries. Market access to the less developed countries improved not much due to their protectionist policies and low income. Meanwhile, the export basket is still dominated by a few categories, nearly half of which are clothing, then followed by electrical products and textiles. Other emerging industries like toys, watches and clocks have also developed rapidly to become important export items in recent years.

It is often claimed that Hong Kong's exports are too concentrated in market and commodity composition. To some extent this is true. But there is much room to manoeuvre within broad commodity and regional classifications.

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<sup>2</sup> For a brief account on the difficulties in dealing with nontariff trade barriers, see Nontariff Distortions of Trade, Committee for Economic Development, (New York, 1969), pp. 12-13.



For instance, within clothing (SITC 841), there is much internal diversification and change which Hong Kong's garment industry has experienced over the years, such as cotton, wool and synthetics. On the other hand, although Western Europe is usually classified as one single region, there can be market re-orientation within this group, and the increase in some may offset the decline in others. Hence, while Hong Kong exports continue to cater chiefly to the developed countries, there are also some signs of diversification of markets within this group. Similar pattern can be found in her commodity composition. As shown in Table 6.1, Hong Kong has diversified her export basket somewhat into other new products like electrical goods, toys, watches and clocks.

No matter how, it is still generally true that Hong Kong has still not been able to diversify her exports both in commodity and geographic concentrations. This has aroused outcry for improvements on the basis that such concentrations may lead to export instability. However, past experience told us that the industrialization of Hong Kong was led by export and gravitated by market forces. In other words, Hong Kong produces what the market needs. This degree of concentration is the end result of her export drive. Diversification becomes necessary only when existing markets are unstable. But parallel with concentration, Hong Kong exports grew steadily over the last two decades despite of the recent recession.<sup>3</sup>

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<sup>3</sup> In his study of the relationship between instability of export earnings and economic structure, Massell stated that the instability of a country's export receipts is largely due to the year-to-year shifts in the demand for its exports. And if a country is flexible enough to shift resources among products to market requirements, hence reduce the impact of sudden changes in demand, export earning will be more stable. Benton F. Massell, "Export Instability and Economic Structure", American Economic Review, Vol. LX (September 1970), pp. 618-630.

As Hong Kong's exports are almost exclusively non-resource based manufactures within which a considerable range of adjustments are feasible, they can respond rapidly to market changes. Thus, not surprisingly, Hong Kong exports have expanded steadily despite of market and commodity concentration.



Table 6.1 Concentration Ratios of Hong Kong's Domestic Exports, Selected Years 1960-1975  
(percentage of total domestic exports)

	1960	1962	1964	1966	1968	1970	1971	1972	1973	1974	1975
<u>Commodity</u>											
Textiles	22.0	19.8	17.5	17.2	13.0	10.9	10.6	10.6	12.6	12.5	9.8
Clothing	40.1	38.5	40.1	38.0	37.7	36.9	41.6	41.9	39.8	39.6	45.9
Toys etc.	4.6	5.6	7.4	8.7	9.9	9.5	9.6	9.6	8.9	8.3	7.3
Footwear	4.5	4.3	4.3	3.4	3.4	2.6	2.7	2.1	1.4	1.4	1.2
Electric machinery	1.9	3.6	4.6	8.9	9.7	11.0	11.7	13.5	14.1	15.0	12.7
Top four	71.2	68.2	69.6	72.8	70.3	68.3	73.5	75.6	75.4	75.4	75.7
<u>Market</u>											
United States	26.0	26.5	27.7	35.5	41.4	42.0	41.5	40.2	35.0	32.4	32.1
United Kingdom	20.4	21.5	21.9	17.2	15.9	12.0	14.2	14.4	14.5	12.1	12.2
Federal Republic of Germany	3.7	4.6	6.6	7.3	5.9	8.0	8.2	10.0	9.8	10.7	12.5
Top three	50.1	52.6	56.2	60.0	63.2	62.0	63.9	64.6	59.3	55.2	56.8

Sources: Tables 2.4, 2.6 and the trade statistics of Hong Kong.



One has to admit that Hong Kong's existing major markets are the relatively stable ones, even though their demand for various products may change for one reason or another. Hong Kong must continue to rely mainly on these markets and tap their potentials by trade promotion. The real danger is the growing protectionism in the developed countries which leads to the proliferating use of quantitative restrictions on Hong Kong products, and the rapid development of other less developed countries which will undercut Hong Kong's competitiveness.

Therefore, in the longer-run, it is necessary for Hong Kong to produce and sell those more skill- and capital-intensive products which are not subject to quantitative restrictions and the less developed countries are still unable to compete. In his study on the competitiveness of the developed countries' manufacturing industries, Helleiner found that only technology-intensiveness and high degree of product differentiation are sound panoply to stand against competition from the less developed countries.<sup>4</sup> And we can see no reason why this cannot be a good lesson to Hong Kong. This also implies that Hong Kong's export promotion activities, which have been quite successful in the past, must concentrate in this direction as she moves to a higher stage of economic development.

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<sup>4</sup> G.K. Helleiner, "Industry Characteristics and the Competitiveness of Manufactures from Less Developed Countries", Weltwirtschaftliches Archiv, (Heft 3, 1976), pp. 507-524.



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